# THE AMERICAN ECONOMIC REVIEW



LUME XXXVII JUNE, 1947 NUMBER 3

The Disequilibrium System *J. K. Galbraith* 287

Guaranteed Wages *Werner Hochwald* 303

Federal Reserve Objectives and Policies *E. A. Goldenweiser* 320

Monetary Management and Credit Control *Allan Sproul* 339

The ITO Charter *R. F. Mikesell* 351

Communications:

National Economic Policies and International Monetary Cooperation *K. E. Poole* 369

Marginal Theory and Business Behavior *H. M. Oliver, Jr.* 375

The President's Economic Report *Holbrook Working* 383

The Nathan Report and Its Critics *G. H. Hildebrand, Jr.* 386

Full Employment after the Transition Period: A Rejoinder *M. Kalecki* 391

Professor Poindexter on Functional Finance: *Emile Benoit-Smullyan and L. J. Pritchard* 397

Price Dispersion and Aggregative Analysis *R. C. Epstein* 402

The Burden of Import Duties: Comment *J. N. Morgan* 407

Memorial: Edwin F. Gay 410

Reviews of Books ~ 414 • Titles of New Books ~ 499

Periodicals ~ 512 • Notes ~ 518

*The* JOURNAL OF
THE AMERICAN ECONOMIC ASSOCIATION

# THE AMERICAN ECONOMIC ASSOCIATION

Founded in 1885



---

# THE AMERICAN ECONOMIC REVIEW

Published by the American Economic Association

**The American Economic Association assumes no responsibility for the views expressed by authors whose contributions are published in *The American Economic Review*.**




THE AMERICAN ECONOMIC REVIEW is published five times a year, in March, May, June, September, and December, at 450 Ahnaip Street, Menasha, Wisconsin. It is sent to all members of the Association, as one of the privileges of membership, \$4.00 of each year's dues being in payment of a year's subscription. Dues and subscription rate are \$5.00 a year; the price of single copies is \$1.25.

Correspondence relating to memberships, subscriptions and business matters pertaining to the AMERICAN ECONOMIC REVIEW should be addressed to the Publication Office, 450 Ahnaip St., Menasha, Wisconsin, or to James Washington Bell, Secretary of the American Economic Association, Northwestern University, Evanston, Illinois.

Address all communications for publication in the AMERICAN ECONOMIC REVIEW to Paul T. Homan, Goldwin Smith Hall, Cornell University, Ithaca, N.Y. Address all communications relating to the Papers and Proceedings of the annual meeting and to the Directory to the AMERICAN ECONOMIC REVIEW, James Washington Bell, Northwestern University, Evanston, Illinois.

Applications for permission to quote from the REVIEW should be addressed to the Secretary of the American Economic Association, Northwestern University, Evanston, Illinois.

The articles published in the REVIEW and in the PROCEEDINGS are indexed in Reader's Guide to Periodical Literature, New York, New York.

Entered at the post office at Menasha, Wisconsin, as second class matter. Acceptance for mailing at special rate of postage provided for in the Act of February 28, 1925, embodied in paragraph 4, section 412, P. L. and R. Authorized September 13, 1928.

## BOOK REVIEWS

### Economic Theory; General Works


STIGLER, *The Theory of Price,* by E. H. Chamberlin ........ 414
MARCHAL, *Le Mécanisme des Prix et la Structure de l'Économie,* by M. Bronfenbrenner ... 418
ISE, *Economics,* by J. D. Calderwood ........ 420
HAZLITT, *Economics in One Lesson,* by A. M. McIsaac ........ 424
HICKS and HART, *The Social Framework of the American Economy,* by G. P. Adams, Jr. ... 428
CHANDLER, *A Preface to Economics,* by S. Levitan and L. Salkever ........ 429
CARLSON, *An Introduction to Modern Economics,* by M. W. Ertell ........ 431
WHITTAKER, *Elements of Economics,* by M. W. Ertell ........ 434
GAMBS, *Beyond Supply and Demand,* by W. F. Kennedy ........ 436


### National Economies


ROVINSKI, *Gosudarstvenny Byudzhet SSSR,* by H. Schwartz ........ 438
NORMANO, *Asia Between Two World Wars,* by J. D. Sumner ........ 439


### Economic Systems; Postwar Planning


MORGENTHAU, *Scientific Man* vs. *Power Politics,* by M. Fainsod ........ 440


### National Income and Product; Income Distribution; Consumption Statistics


*Studies in Income and Wealth,* Vol. 8, by R. W. Goldsmith ........ 442
LIU, *China's National Income, 1931–1936,* by E. E. Hagen ........ 446
*Readings in the Theory of Income Distribution,* by L. Tarshis ........ 447


### Business Cycles and Fluctuations


WRIGHT, *The Economics of Disturbance,* by H. L. Reed ........ 449
FELLNER, *Monetary Policies and Full Employment,* by L. V. Chandler ........ 452
*Public Investment and Full Employment,* by G. Colm ........ 453
HARRIS, *Inflation and the American Economy,* by C. O. Hardy ........ 455
HAYES, *Spending, Saving, and Employment,* by O. L. Altman ........ 457
SWANSON and SCHMIDT, *Economic Stagnation or Progress,* by H. G. Hayes ........ 458


### Money and Banking; Short-Term Credit


FEDERICI, *La Moneta e l'Oro* and *Teoria dei Cambi,* by F. M. Tamagna ........ 460


### International Trade, Finance and Economic Policy


SOUTHARD, *The Finances of European Liberation,* by A. M. Kamarck ........ 461
TINBERGEN, *International Economic Cooperation,* by H. S. Piquet ........ 463
ANDERSEN, *Bilateral Exchange Clearing Policy,* by F. A. Southard, Jr. ........ 465
*Memoria de la Primera Reunión de Técnicos sobre Problemas de Banca Central del Continente Americano,* by V. Salera ........ 467
BAYKOV, *Soviet Foreign Trade;* CONDOIDE, *Russian-American Trade,* by P. A. Baran .. 470

### Public Control of Business; Public Administration; National Defense and War

FISHER, *Economic Progress and Social Security* and *International Implications of Full Employment in Great Britain;* HUTT, *Plan for Reconstruction*, by P. T. Homan........ 474

### Transportation; Communication; Public Utilities

MANCE, *International Air Transport* and *International Sea Transport*, by D. Marx, Jr.... 478

### Economic Geography; Regional Planning; Urban Land; Housing

FRIEDMAN and STIGLER, *Roofs or Ceilings? The Current Housing Problem*, by R. Bangs... 482

GREER, *Your City Tomorrow*, by V. Turrell.................................... 483

### Labor and Industrial Relations

METZ and JACOBSTEIN, *A National Labor Policy*, by H. R. Northrup................ 485

LESTER and ROBIE, *Wages under National and Regional Collective Bargaining*, by N. W. Chamberlain.............................................................. 490

BAKKE, *Mutual Survival—The Goal of Unions and Management*, by S. C. Sufrin......... 492

ISERMAN, *Industrial Peace and the Wagner Act;* GREENMAN and GREENMAN, *Getting Along with Unions*, by V. H. Jensen.................................................. 494

WILLIAMSON and HARRIS, *Trends in Collective Bargaining*, by R. W. Stone........... 497

# IRVING FISHER[*]

*Twentieth President of the American Economic Association, 1918*

Irving Fisher, son of a Congregational minister, was born at Saugerties, New York, February 27, 1867. He died April 29, 1947, in New York City, shortly after a testimonial dinner was given in honor of his eightieth birthday. He was graduated from Yale in 1888 and in 1891 he received his Ph.D. Thereafter he studied at Berlin and Paris, and upon his return to Yale served as tutor of mathematics and later associate professor in that subject before becoming professor of political economy in 1898. He was emeritus professor from 1935 until his death. He was active as director, chairman, or president of numerous academic, welfare, and business organizations and public commissions. He served as President of the American Association for Labor Legislation, 1915-17, of the American Economic Association, 1918, the Econometric Society, 1931-33, and the American Statistical Association, 1932. His presidential address, presented at the Richmond meeting of the American Economic Association, was entitled, "Economists in Public Service." Professor Fisher won fame in many lines of endeavor. He was perhaps most widely known for his advocacy of the stabilized dollar and managed currency theories, but other contributions were made in the fields of eugenics, ethnology, health, conservation, prohibition, world peace, free trade, mathematics, and statistics. He was author of numerous books on mathematics and economics, among the most significant of which are: *Theory of Value and Prices*, 1892; *Infinitesimal Calculus*, 1898; *Nature of Capital and Income*, 1906; *Principles of Economics*, 1910; *Purchasing Power of Money*, 1911; *Making of Index Numbers*, 1922; *Theory of Interest*, 1930; *Stable Money*, 1934.

[*] A memorial for Irving Fisher will be published in the September, 1947, *American Economic Review*.

Number 20 of a series of photographs of past presidents of the Association.

Irving Fisher

# The American Economic Review

VOLUME XXXVII JUNE, 1947 NUMBER THREE

## THE DISEQUILIBRIUM SYSTEM*

*By* J. K. GALBRAITH

During the second World War the United States, partly by improvisation, partly by plan, developed a system for mobilizing economic resources that, by commonly accepted standards of performance, proved highly satisfactory. The American system was not unique; in its major contours it resembled that of the other belligerents which were forced to make an abrupt conversion from a largely unplanned to a largely planned utilization of resources. This paper, somewhat in the tradition of market theory, idealizes the system that was so devised and examines its central features. It also uses this model to explore the special function of price control.[1]

The form of wartime organization employed by the United States, and with variations by the other major belligerents with the exception of Russia and China, I have termed the Disequilibrium System. Under this system the incentives and compulsions of an unplanned economy were supplemented or supplanted by three new forces for determining economic behavior. These were: (1) a more or less comprehensive system of direct control over the employment of economic resources; (2) a nearly universal control over prices, and (3) an aggregate of money demand substantially in excess of the available supply of goods and services. Because it was a distinctive and pervasive feature of the system (not an unfortunate or evil by-product), I have used this disequilibrium

* The author, formerly deputy administrator of the Office of Price Administration, is a member of the board of editors of *Fortune* magazine. A preliminary version of this paper was read before the Fifty-Ninth Annual Meeting of the American Economic Association in Atlantic City, January, 1947.

[1] In a companion article "Reflections on Price Control," *Quart. Jour. Econ.*, Vol. LX, No. 4 (Aug. 1946), pp. 475–89, I have advanced certain arguments, especially as to the effectiveness of price control in imperfect markets, which this paper assumes. I should like to be clear that I do not justify this exercise on what are commonly called "practical grounds." Very possibly we have seen the last mobilization in what may one day be called the classical or World War II manner. Atomic energy applied to war must surely be labor-saving by any applicable calculus of labor-productivity and, in the largest degree, capital-saving as well. If a small input of resources will accomplish massive *cum* total destruction, full mobilization is superfluous. However, I have no stomach for such morbid speculation. I do argue that wartime mobilization, because it presents an essentially simple problem of means and ends, offers a rewarding opportunity for theoretical discussion.

of demand and supply to name the system as a whole. To these three determinants might be added a fourth which, although supplementary, represented the area of the greatest wartime failure. That is an effective system of rationing to reinforce price control in those markets that approximate conditions of pure competition.

The next few pages relate each of the above-listed determinants to the system as a whole. The latter half of the paper returns to the special function of price control. I assume throughout that the objective is to attain maximum resource employment at maximum efficiency, to get the psychologically optimal allocation of resources between military and civilian use and to distribute the former between different kinds of production, present and future, in accordance with a given but not static plan. These ends should, if possible, be so served that the way is open for eventual restoration of prewar property rights and status and the normal functional mechanics of the economy. This conservative objective is presumably secondary for, during the last war, all of the major belligerents avowed the doctrine of total war although none, again with the possible exception of Russia, followed it in practice.

## II

The role of direct controls in the system can be readily established. For regulating the use of resources, the available choice is between the income incentives and compulsions of the market, and authority. Market incentives are incapable of producing the comprehensive transfers in resource employment that any considerable mobilization requires. An effort by the government to monopolize steel supply must necessarily be defeated by the inelasticity of demand for steel by some private buyers. So with other resources. Needless to add, the response to market incentives is uncertain and sellers in imperfect markets who take a comprehensive view of their position do not seek to maximize profits at any given point of time. For this reason they will not willingly accept a government order, even though it is immediately more profitable than any alternative, if it promises to impair their long-run position in the market. The automobile industry, in late 1941 and early 1942, was displaying normal market behavior in preferring manufacture of automobiles to tanks or aircraft even assuming the latter netted higher returns.

All this holds whether or not there is price control. Although for purely practical reasons the introduction of a comprehensive system of price control probably precludes the use of market incentives on a large scale, it actually makes possible their use within limits. With price control it becomes possible to create ***and maintain*** a differential return for favored industries.

With this very brief comment I take leave of direct controls. This

summary dismissal does not mean that I consider them either unimportant or easy to employ. They are neither. But my concern is with other aspects of the system.

## III

The indispensability of direct controls, though conceded with reluctance in some quarters, seems not to have been questioned by economists. This was not so with the other two instruments. As always, one must be cautious in reporting the views of his professional colleagues, but I am fairly certain that before the war most economists would have rejected *general* price control as an instrument of wartime organization. Having done so they (quite correctly) would have looked upon an excess of demand over supply as an evil that would eliminate itself in the further evil of progressive inflation.

Price control, *i.e.*, general price control, was rejected because it was believed to be unworkable—it was felt that it would quickly succumb to the underlying disequilibrium that suggested its use. Standard pedagogy had emphasized this conclusion, quite literally, for generations. Therefore if prices were to be kept reasonably stable, aggregate demand had to be kept equal or approximately equal to supply. None of this ruled out partial equilibrium solutions, *via* price control and rationing, for commodities and perhaps services that were in especially short supply or particularly exaggerated demand. However, the only generally recognized alternative to a rigorous control of demand (through curbing increases in income and its reduction by taxation, forced saving and like means) was successive positions of equilibrium corresponding to the increases in demand or curtailment of supply—in a word, inflation. It was assumed, and I have no doubt correctly, that inflation would have disorganized and frustrated the direct controls, made orderly scheduling and procurement difficult or impossible, and resulted in the euthanasia of a whole group of property rights. Since this was unacceptable, all cards were placed on the control of demand and the maintenance of an initial position of equilibrium.[2]

## IV

The Disequilibrium System in the United States was the fortuitous progeny of two miscalculations. The first miscalculation was a great overestimate of the technical efficiency of controls over income and of

[2] Certainly the most widely read and quite possibly the most influential prescription for wartime stabilization was that of Keynes. He summarized what is, in all essentials, the foregoing view as follows: "It has been argued here that the only way to escape inflation is to withdraw from the market, either by taxation or by deferment, an adequate proportion of consumer's purchasing power, so there is no longer an irresistible force impelling prices upward." He added that "some measure of rationing and price control should play a part in our general scheme and might be a valuable *adjunct* to our *main* proposal" (Italics added). *How to Pay for the War* (London, 1940), p. 51.

their political feasibility. The second and offsetting error was an equally great underestimate of the efficiency of price control. In the spring of 1942 prices were rising steadily and neither the Treasury nor Congress were contemplating taxation or other fiscal controls on a scale that seemed sufficient to check the advance. Partly to gain time, partly as a tactical move to force action by the Treasury and Congress, and partly because it was the only available answer to an insistent demand for action, the General Maximum Price Regulation was issued. While there was some thin ground for hope in the prior experience of Germany and Canada, those responsible were far from comfortable about a step that, in so many respects, seemed so contrary to precept.[3] The regulation did, however, demonstrate the efficacy of price control *qua* price control over a wide range of markets.[4] This meant stable or comparatively stable prices could coexist with a substantial surplus of demand.

The surplus of demand, in turn, both promoted and facilitated the mobilization of resources. The aims of wartime industrial mobilization I have defined as bringing all possible resources into efficient use and their planned allotment to military and civilian use and between present and future production. The allocation and reallocation of resources by authority presents no problem in principle and the practical problem, as the wartime experience showed, though difficult is not insuperable. It is not clear, however, that direct controls are similarly effective for ordering normally unused resources, especially labor, into the market. Yet the mobilization of unused labor power is the most important single requirement for an increase in national output. Such a mobilization was accomplished in the United States with apparent success and with but limited resort to authority. While one needs to be wary of such comparisons, the experience of the United States seems to have compared not too unfavorably with that of England, which used a combination of authority and incentives, and very favorably with Germany, which relied heavily on authority.[5]

[3] This was especially true of the early stages of work on the regulation. As the weeks passed and more and more problems were clarified and more and more details worked out, there was some tendency to become more optimistic. The *Statement of Considerations*, nevertheless, carried a heart-felt warning that it would not work unless strong steps were taken to restore and maintain equilibrium at the then ruling prices.

[4] *Cf.* "Reflections on Price Control," *op. cit.*, pp. 476–78.

[5] The increase in male (native) German workers between 1939 and 1943 did not exceed the natural rate of increase. The number of women gainfully employed actually declined in the early years of the war and although it was higher by a few hundred thousand at the end of the war, the proportion of all women in gainful employment did not increase. In the early part of the war there was still some doctrinal objection to use of women in factory work but this had been subordinated to expediency by 1943 or 1944 and the government was actively trying to get women into industry. *Cf. Effects of Strategic Bombing on the German War Economy* (Washington, U. S. Strategic Bombing Survey, 1945), pp. 29 *et seq.*

The first contribution of excess demand was to provide a taker for anyone who offered his services. Frictional unemployment was eliminated by providing a market adjacent to every worker.[6] But what may be called the passive contribution of excess demand in combination with price control, in particular the kind of wage policy they allowed, was more important. This can best be seen by contrasting what was possible under the Disequilibrium System with what could have been done had it been necessary to maintain a given position of equilibrium.

To maintain equilibrium would require, as noted, energetic measures to restrain the expansion of incomes. Since *ex hypothesi* prices would be stable, hourly rates would not be under undue pressure. But other contributions to income would have to be watched with care. Overtime and doubletime would be dangerous. So would payments (usually at inflated productivity rates) to new arrivals in the labor market. So would payments under incentive schemes. Yet these inducements to labor power at the margin were of the utmost importance for the expansion of output that occurred; a recent estimate attributes approximately half of the real increase in Gross National Product between 1940 and 1944 to individuals not normally in the labor market and to the increase in the average work week.[7] It seems entirely reasonable to argue that much of this increase occurred because the Disequilibrium System made it possible to advance the price of marginal labor power with almost complete disregard for fiscal consequences.

It was likewise possible to reward the marginal entrepreneur—the inefficient old one or the inexperienced newcomer—with a similar neglect of fiscal effects. The relation of taxes to incentives could also be largely elided. Had taxes during the war approached the rates necessary for equilibrium at prewar prices, their relation to incentives would certainly have become a major problem.

To refocus the discussion slightly, excess demand during the war was the counterpart of a buffer of unemployed resources, especially unemployed workers—the buffer that is necessary for price stability in the absence of price control. If markets are uncontrolled, any near approach to full employment of normally employed workers must lead to advances of prices (readily increased under conditions of imperfect competition

[6] A consideration which led the CED economists to urge the maintenance of an excess of demand (and price control), in the early reconversion period. *Cf. Jobs and Markets*, Research Study for the Committee for Econ. Development (New York, McGraw-Hill, 1946).

[7] *America's Needs and Resources* (New York, Twentieth Century Fund, 1947), p. 13. The estimates, admittedly crude, attribute 48 per cent of the real increase from 1940 to 1944 to increased hours and "emergency" workers, 26 per cent to absorption of unemployed, 13 per cent to normal increase in the working force, and the rest to increased productivity. Some of the latter can be attributed to the shift from low- to high-efficiency employment encouraged by high take-home pay.

in a strong market) followed by increases in wages and so forth in a continuing cycle. (Wages can as well be considered the initiating factor in this cycle as prices.) This process, which the last few months have made unpleasantly familiar, can occur even when there is no excess demand and quite possibly while substantial numbers—perhaps some millions—are unemployed.[8] A mirage now being chased through the early peace is that a stable equilibrium is possible with full employment when there is bilateral monopoly in the factor markets and parallel monopoly power in the product markets. The Disequilibrium System represented a simple adaptation of present-day capitalism to the wartime requirement that all resources must be employed and under conditions of approximately stable prices and costs.

## V

The indulgent Providence that (so far) has protected the United States, was especially kind in bringing it into the Disequilibrium System with a prior faith in the idea of maintaining equilibrium of aggregate demand and supply at a ruling price. For, to the extent that there was a sense of guilt in allowing demand to exceed supply, there was a motive for keeping the excess of demand as small as possible.[9] That was fortunate for clearly an excess of demand is only advantageous or even tolerable within limits. It is of utmost importance for understanding the Disequilibrium System to know what determines this *margin of tolerance.*

The counterpart of the current excess of aggregate demand is, of course, an equivalent volume of current saving. The explanation of the high actual volume of current savings during the war is complex and in considerable measure conjectural. Without doubt, patriotic compulsions reinforced by Treasury propaganda and community pressure affected the average propensity to save by individuals whose income was not changed. For those whose income was increasing, a low (marginal) propensity to consume may be assumed. But it would seem clear that the proximate cause of much, if not most, of the increased saving was price control. At a minimum, this associated a variety of inconveniences with spending money. At a maximum, through shortages, it removed a large number of the accustomed objects of consumption. The normal choice between specific objects of consumption and saving could not be exercised. Individuals who had no intention of saving became involuntary holders of cash or its equivalent. The disequilibrium inheres

[8] *Cf.* Paul A. Samuelson, *Econometrica* (July, 1946), p. 191.

[9] It is interesting and perhaps significant of the increasing appreciation of the nature of the system that this sense of guilt diminished as the war years passed. Observe how interest in the "Inflationary Gap" had diminished by the end of the war.

in the circumstance that, in the absence of price control and attendant shortages, they would have spent their income for the given supply of goods and in so doing would have established equilibrium at a higher price level.[10]

For individuals who are exercising a normal choice between saving and consumption—who are equating the marginal utility of money to spend with that of money to save—there is no new problem of incentives. For those who may loosely be termed involuntary savers, incentives are of first-rate importance. It may be assumed that the marginal utility of money for this group will show a tendency to fall as the proportion of savings to total income increases or, secularly, if a given (high) proportion of saving is continued over a long period. When for either or a combination of these reasons it falls to the point where there is a general withdrawal of marginal labor effort it may be said that the margin of tolerance in the Disequilibrium System has been exhausted.

It seems unlikely that in the United States during the war any such point was reached or even approached. There is the happy circumstance that within the memory of present generations the dollar has not gone through hyperinflation. There was no general expectation of a collapse of values as a result of military defeat. Moreover, throughout the war there was a strong conviction that current high employment and income was merely an interlude between depressions. This elasticity of expectations, to use Professor Lange's term,[11] was reinforced by manufacturers who promised a flood of inexpensive and elegantly streamlined goods after the war and by the Treasury with its rediscovery of the sovereign virtues of thrift. Perhaps most important of all, consumption after savings was high—for most workers higher than before the war. Had there been a sharp reduction in current consumption, workers might well have revised their attitude toward acquiring and holding dollars, the redundancy of which would be a matter of day-to-day observation.

Nevertheless at some point had the ratio of savings to income become too high or had at a given ratio continued too long, incentives would have been weakened. An admirable arrangement for, in effect, getting current work in return for a promise of future consumption would have disintegrated. Workers, equating the marginal disutility of labor effort with diminishing marginal utility of income for saving, would, in the absence of strong patriotic compulsions, have abandoned overtime and Sunday work and marginal workers would have with-

[10] It has been suggested to me that since this group did hold cash balances, the term "forced equilibrium" would be preferable to "disequilibrium." This, I judge to be a matter of taste; I have opted for the shorter term and the implied notion that equilibrium is more meaningful, in this context, as a description of the market relationships that would have obtained in the absence of price control.

[11] *Price Flexibility and Employment* (Bloomington, Principia Press, 1944).

drawn from the market rather than add to their stock of savings. A good thing would have been overdone.

Its large margin of tolerance must be counted one of the major sinews of American wartime strength in interesting contrast with Germany where the margin would appear to have been decidedly thin. Because of the inflation of the mark in the 'twenties the accumulation of cash balances was clearly a less attractive alternative to spending for Germans than for Americans. It may be doubted if many Germans supposed, even if they won the war, that Hitler would permit them to enjoy a lush, secure peace; from 1943 on, there was a strong undercurrent of feeling that Germany would lose the war. In the United States the principal (although it will be apparent that I now believe quite mistaken) reason for restraining the expansion of demand was to protect the price controls. In Germany price and rationing controls were perfectly secure—they even survived combat and the fantastic disorganization that followed—and there was no serious black market. Partly for this reason and partly, no doubt, because they were calloused practitioners of financial heterodoxy, the German leaders seem not to have been greatly worried over the expansion of demand.

As a result money was not a highly effective incentive in Germany during the war and its value diminished as the years passed. Women, as I have noted, were not attracted by employment opportunities in industry; indeed a good many seem to have withdrawn from gainful employment when they got substitute income in the form of servicemen's allowances. There was also a fairly clear tendency for entrepreneurs, especially from 1943 on, to use available opportunities to divert materials into unneeded plant or inventories instead of converting them into end-products which, when sold, would only increase their cash balances.

Contemporary Germany presents an interesting picture of a country that has completely exhausted its margin of tolerance and where the Disequilibrium System is in the final stages of disintegration. Price control is still effective and is supplemented by an efficient rationing system and the black market is still fairly small. A large part of the middle class and many workers either have all of the marks they need or can acquire them with a few days' work each week—sometimes without working at all. Money, *i.e.*, money to save, is no longer an incentive; it requires no hedonistic calculus to establish the unwisdom of exchanging scarce energy for redundant marks. It has all been reduced to a simple problem in physiology that most Germans have solved.

## VI

If my interpretation of the Disequilibrium System is admitted, then price control in this system must be administered with two ends in view.

Its first, and rather obvious aim, is to forestall the movement of prices to equilibrium at higher (and successively higher) price levels in accordance with the current (excess) demand. It must also be administered with a view to restraining the expansion of demand which, I have argued, would at some point undermine incentives and destroy the system. This is the more subtle task of the price-fixer—to use his instrument to protect the margin of tolerance in the Disequilibrium System.

One formula that would serve both ends would be to allow no price increases whatever. When the General Maximum Price Regulation was issued in the spring of 1942—I again identify the beginning of the Disequilibrium System with the issuance of this order—a flat prohibition on price increases was proclaimed and reiterated in the subsequent "hold-the-line" orders of October, 1942, and May, 1943. In fact, no such formula was possible. Apart from the important circumstance that many costs were left uncontrolled by the first two orders, it meant that all kinds of accidental and often bizarre cost-price relationships would be perpetuated indefinitely.[12] Some of these would be positively damaging to production; almost none could be defended at the bar of public or Congressional opinion.

Nor was any such formula necessary. It is clear, in retrospect at least, that there can be considerable flexibility in the administration of price control in the Disequilibrium System, the amount depending in each case on the derived effects of the price increase. This latter will be different in each of three broad (although not mutually exclusive) categories of goods and services. The three categories may be labelled Labor and Wage Goods, Non-Wage Civilian Goods, and War Goods.

The allowable flexibility is least in the case of wages and wage goods—although individual adjustments are not precluded, the system requires that these be firmly anchored. A general advance in wage rates, even though absorbed out of profits, will use up part of the margin of tolerance if, as may reasonably be assumed, the marginal propensity to consume from wage income substantially exceeds that from profit income. Or such an advance will force a general readjustment of prices which, if repeated at intervals, will have a similar effect to movement to a new equilibrium. Stability in the price of wage goods—commodities and services that absorb a large proportion of wage income—is equally necessary to forestall resulting demands for wage rate advances. The

[12] I am reasonably certain that few, if any, of the economists associated with price control believed such a formula to be workable. Prior to the issuance of the General Maximum Price Regulation there was, however, deep concern lest the requests for price adjustments swamp the still limited administrative capacities of the agency. Hence, it seemed desirable to announce a policy that would keep requests for relief to a minimum. In a series of speeches in the summer of 1942, I proclaimed the immutability of the ceilings established by GMPR with more vigor than I find it pleasant to recall.

relationships here, including the tendency toward interacting wage and price increases, are familiar and since I have no novelties to add, I will not dwell on them further.

Control of wages and prices of wage goods is the central strategy of price control in the Disequilibrium System. By contrast, control of non-wage civilian goods, though necessary, is partly a matter of tactics.[13] Higher prices in this area do not, as with increases in the prices of wage goods, lead inevitably to demands for general wage increases. The increased income of sellers does not necessarily trench on the margin of tolerance; depending on the shape of the consumption functions of the affected groups, their increased income may be partially, wholly, or more than offset by the reduction of the spendable funds of others.

In practice, however, the direct controls are not likely to be sufficiently comprehensive or enforceable to keep these higher incomes from being used successfully as an inducement to labor or other resources to enter the non-wage civilian goods industries. Price control is therefore necessary to buttress the direct controls. Moreover, serious questions of equity and precedent are involved. As a consequence of high profits, wage levels in these industries would be under pressure; to the extent that wage controls in this area were relaxed or circumvented as a result, this would be a precedent for increases elsewhere. The higher profits of producers of non-wage civilian goods would also be a point of reference for producers of wage goods in their demands for price increases. At most, the subsidiary or defensive character of price control for non-wage civilian goods suggests only that it need not be as meticulous or as rigorous as for wage goods.[14]

For war goods, *i.e.*, end products, capital goods, components or materials monopolized or largely monopolized by military employment, price control is, in principle, unnecessary. The monoposony of the procurement authority,[15] especially when supplemented by actual or moral power to requisition, is an adequate substitute for price control. Nor need the pricing standards of the procurement authority conform to

[13] I have established this awkwardly titled category to avoid using the term "luxuries" which in common usage denotes beer, gasoline for pleasure-driving, and other commodities that enter generally into the worker's budget. Wartime experience showed that price increases for such items in face of fixed incomes can have the same effect on wage demands as increases in the price of "essentials."

This category of goods exists, in considerable measure, because of incomplete mobilization.

[14] It was a distinctive feature of price control in Great Britain that regulation of non-wage civilian goods was either loose or non-existent. This I believe accorded more closely with principle than practice in the United States or Canada. But it was possible in part because the British controls over resources were a good deal tighter, in part because more thorough-going mobilization of resources had reduced the importance of this class of goods and in part, it may be assumed, because a sharper stratification of consumption provided more opportunity for discriminating between different classes of goods.

[15] I assume, of course, unified, *i.e.*, non-competitive procurement.

those of the price control authority. Differentially higher prices for military goods has no obvious repercussion on the price of wage goods; higher profits and a tendency to upgrade wage rates in this area (unlike similar action for non-war non-wage goods) may even be beneficial. This expansion of income does, to be sure, cut into the margin of tolerance. But the margin can properly be used for incentives in this area. There are limits, however. Unnecessarily high profits for war goods producers—profits above incentive levels—would unstabilize wage controls and unnecessarily high wages or profits would become a point of reference for entrepreneurs and workers in other fields who are seeking higher prices.

In practice, some price control for war goods is also necessary. The three categories of goods and services which I have established are not exclusive and price control is necessary for those war goods which also enter civilian consumption. The wartime experience also showed that it was convenient to fix prices of commodities like copper and steel which, although largely monopolized for war purposes, lie several stages removed from finished products. However, this is a procedural detail. Had the Office of Price Administration not controlled the prices of (say) non-ferrous metals, the government would have speedily been forced to undertake some sort of bulk procurement as it did, for example, for rubber. The results—certainly for such a commodity as lumber —might have been neater.

## VII

During the course of the war, price control came increasingly to conform with the principles which, with the aid of hindsight, one can now identify as fundamental in the Disequilibrium System. The development was evolutionary in the sense that the final structure was influenced less by an effort to build to an overall design than by a series of individual decisions each influenced by at least some of the same considerations that would bear on any effort to design a total system.[16]

The special importance of wage goods was recognized from the earliest days of price control although in 1941 and 1942 they shared priority

[16] The tendency for the two processes to achieve the same result is an interesting aspect of government policy-making—perhaps it is what makes government possible. As an example of how individual or microscopic decisions, when fully resolved on their merits, conform to a microscopic pattern, I think of the problem of price controls on certain kinds of non-wage civilian goods. Nearly all of OPA's critics, at one time or another, attacked these controls—for some reason ceilings on fur coats inspired them to special anger. On several occasions I found myself contending with new colleagues (and once with a new administrator) who were enthusiastic about dropping price control on fur coats. When they saw that this action would put a premium on high-priced coat manufacture, would draw materials ("trim") away from cheaper lines, they soon reversed themselves. In doing so they adopted a position entirely consistent with a broad theoretical pattern for allocating resources and equalizing incentives. Of the existence of any such theoretical pattern they were totally unaware.

with steel, copper, and other materials in strong wartime demand. During the first year of the Disequilibrium System a set of unruly circumstances made controls over food and clothing the least effective of the regulations. The already half-forgotten Section 3 of the Emergency Price Control Act made it necessary to exempt wholesale prices of a considerable range of farm products from regulation because they had not reached the statutory minimum of 110 per cent of parity. In the autumn of 1942, Congress removed the extra 10 per cent handicap but prices still had to be adjusted to the upward drift of the parity index. Moreover, regulations had to be approved by the Department of Agriculture—a process that almost invariably involved concessions to the inflationary bias of some members of that department. Finally, the OPA though comparatively well organized for control of prices of industrial raw materials was still ill equipped in 1942 for the immensely more complex task of regulating food and clothing prices. Just as the task was undertaken, the staff that had been built up for controlling food prices was decimated by the demands of the new rationing organization.

By June of 1943, however, control over wage goods had come to conform closely with principle. The great battles of the spring of 1943 were perhaps the Stalingrad of OPA; when the battle smoke blew away, the principle of using subsidies as an alternative to necessary or politically inevitable price increases had been established. So had the classification of retail outlets and the establishment of firm dollars and cents prices for the consumer to watch. Although the effort to associate price with quality standards was a disastrous abortion, in the next two years the Bureau of Labor Statistics index of cost of food at retail did not rise at all; it had risen thirty-six points in the two years before.

A case could perhaps be made that non-war and non-wage goods were too rigorously controlled by OPA. In the earliest stages of planning the General Maximum Price Regulation it was proposed that these items be exempt from control—the first draft proposal limited the general ceiling to wage goods, or "bread and butter" items as they were dubbed at the time. In the beginning such a selective regulation had the support of a substantial majority of the policy-making officials of the agency. After a series of meetings, held daily for nearly a month in the winter of 1942, opinion gradually shifted to favor an inclusive regulation.

It probably remained the sense of those meetings that non-wage civilian goods would be kept under somewhat milder restraint than wage goods. However, in the early months of the GMPR the proclaimed formula of allowing no price increases had the effect of making all items subject to an equally scrupulous control. There was also some fear that an easy-going policy for non-wage civilian goods would create a legal or moral precedent for similar standards for wage goods. Finally, there had always been a strong conviction (or at least a strong theology)

among members of the OPA staff that price stability and inflation were indivisible. According to this doctrine a price increase for almost any item could start an "inflationary spiral." While it is doubtful if many of the economists in the agency held this view, it had a powerful influence on price policy.

In retrospect a more liberal price policy for non-wage civilian goods might have been desirable. Quite possibly some sort of margin control would have been sufficient; certainly a provision for automatic adjustment of hardship would have been tolerable. By reducing the strain on OPA's always over-taxed administrative resources, it might have made the price-fixer's life a little happier and therefore a little longer than it was.

For war goods it is evident that the wartime experience conformed closely to my standards. The Emergency Price Control Act itself made no distinction between munitions and civilian goods—when the War and Navy Departments sought, at one stage in deliberations on the bill to limit the administrator's authority to price finished armament, they were ordered by President Roosevelt to desist. In the winter and spring of 1942, maximum prices were established by formula for a considerable range of components and sub-assemblies used in finished armaments. While, by supplementary regulation, finished armaments, components and sub-assemblies were excluded from the General Maximum Price Regulation, plans were made in the summer of 1942 to place formula ceilings on prices of air frames and tanks. The principal objective of these measures, however, was wage control. At the time no effective steps had been taken toward wage stabilization and it was hoped that these regulations would limit wage increases by making the granting of wage concessions by arms manufacturers less painless than it was.

During the course of that summer the Undersecretaries of War and Navy sought to have all war goods "without a civilian counterpart" excluded from price control. Partly because of this pressure and partly because wage stabilization came into being, the OPA abandoned the field. By present standards this was a happy withdrawal; it saved the agency from a complex and unrewarding task and one that, in principle, was unnecessary.[17]

[17] The withdrawal was not entirely voluntary but it was undoubtedly related to a growing appreciation of the system of war mobilization of which price control was a part. For some months prior to the agreement with the War and Navy Department I had been growing increasingly uneasy about efforts to control the prices of war goods. I was influenced partly by the fear of the blood-spattered criticism we would experience did it ever appear that price controls were delaying the production of arms but I also had begun to doubt that control in this field had any close bearing on the problem of inflation. Mr. Henderson, although formally committed to the use of price controls in this area, had, I believe, more than passing sympathy for this view. In any case the agency did not press its jurisdiction over these goods with anything like normal vigor.

## VIII

I have suggested that in the United States the main reason for being concerned over the excess of demand was fear that it would break down the price controls. These fears were misplaced. The main concern should have been over the effect on incentives for there is no determinate point at which a *properly conceived* system of price control will be destroyed by an excess of demand.

By a *properly conceived* system of price control, I mean one that is adapted to the markets which it seeks to control. For imperfect markets, in particular for oligopoly, this means only price regulations that are carefully tailored to the market structure. In such markets, as I have elsewhere argued in some detail,[18] price-fixing as such presents no problem of principle and the war experience came close to showing that such markets are not the exception but very nearly the rule. The designing of price regulations to fit the structure of such markets, and their enforcement, was OPA's ablest piece of craftmanship.[19]

Price control under conditions of excess demand in markets that approximate pure competition *must* be supplemented by rationing. In spite of brilliant initial successes, this was the area of most dismal failure in the operation of the Disequilibrium System.

From the earliest days of OPA, indispensability of rationing as a supplement to price control was fully recognized by the economists associated with the enterprise—a fact that is hardly surprising in view of the generally unsanguine attitude toward price control. In the accidental pattern of such events, I was associated with and in a measure sponsored the efforts to have administration of price control and rationing associated, and these efforts were justified and pressed on grounds of the economic necessities of the case. As a result, a clause was inserted in the original charter of the Office of Price Administration and Civilian Supply (OPACS) giving it authority to make "consumer allocations."[20] When this authority was later lost to the Supply Priorities and Allocations Board (SPAB), responsibility for rationing rubber tires was obtained from the dying Office of Production Management because it seemed certain that whatever agency rationed tires would eventually have responsibility for rationing other commodities.

The early rationing programs were ably conceived and executed—a good case could be made that the rationing of meats, canned goods, and fuel were among the outstanding administrative achievements of the war.[21] Meat rationing, in particular, showed the indispensability of

[18] "Reflections on Price Control," *op. cit.*, p. 479 *et seq.*

[19] An achievement, in very large measure, of the very talented legal staff of the agency.

[20] A euphemism invented at the time because it was feared that the word rationing had an unacceptable connotation of scarcity and distress.

[21] These are the views of a well-situated onlooker. Credit for this achievement belongs to

rationing for price control for it quickly brought order to markets that price control, ex-rationing, had reduced to near-chaos. The lesson was fully observed in the OPA.[22]

Yet, as the result of a remarkable combination of bad politics and malignant stupidity, this fine beginning was abandoned in favor of helter-skelter distribution at fixed prices. The result was a breakdown of price controls in these markets—the classic breakdown that undergraduates are expected to foretell. The Office of Price Administration was not entirely blameless in this debacle. For a brief period there was a disposition by some policy-makers to look upon rationing not as essential for price control but as an unhappy by-product of price regulation. However, the honors for this piece of destruction rest with the commodity czars who shared responsibility with OPA for the rationing programs and with the Department of Agriculture. The breakdown began with the development of the novel doctrine that increased rations would be popular with the American people even though supplies were not available to meet them. The "honoring of ration tickets" had been regarded, by those who designed the system, as the *sine qua non* of successful administration. When this principle was breached the popular basis for rationing disappeared. The consumer was no longer assured of her aliquot share in what was available and the admittedly cumbersome machinery required for effective rationing became not only burdensome but superfluous. The integrity and even the usefulness of the rationing system having been destroyed, the easy next step was to urge or order the abandonment of all rationing controls. This sealed the fate of price control in the competitive markets and in large measure the fate of price control as a whole. The final attack on OPA last summer was enormously facilitated by the manifest breakdown of price regulation in competitive markets, especially in the markets for livestock and meat.[23]

## IX

Although I have no doubt that price-fixers will always cite the comparatively modest advances in prices during the war years in their own defense, it will be clear by now that my analysis substitutes a different yardstick. That standard is the performance of the system of war mobilization as a whole—the system of which price control was merely one

---

Professor Paul M. O'Leary and, among others, to his lieutenants, Harold Rowe, Joel Dean, Richard G. Gettell, Thomas Harris, and Charles Phillips.

[22] In December of 1942, I suggested to the "Price School" of OPA that we had come to the point where, in some measure, price control "passes out of the hands of the price department and into the hands of the rationing department." I am sure this view was fairly generally held at the time.

[23] For a penetrating and important history of the attack on rationing from within the Executive see Paul M. O'Leary, *Am. Pol. Sci. Rev.*, Vol. XXXIX, No. 6 (Dec., 1945), pp. 1089–1106.

part. The directly relevant indexes are those of production rather than of price. By these standards the wartime record of price control—or rather of the system of which it was a part—must be counted a good one. By some combination of accident and design—the blend will never be known—the United States equipped itself with a wartime economic organization which, for that war at least, proved wonderfully good.

Although the system, by all outward evidence, fulfilled its wartime objectives, it is interesting that it failed badly in the subsidiary conservative aim of effecting a smooth return of the economy to the *status quo ante*. I cannot think, however, that this failure was necessary. It was taken for granted during the war years that the disestablishment of the Disequilibrium System would have to be gradual. Although it is worth noticing that price controls did survive for nearly a year after V-J day—a very important twelve months—the system had been weakened and unbalanced by the premature liquidation of the controls over resources. The rational course would surely have been to keep both price control and the supporting controls over distribution until equilibrium had been more nearly restored and to avoid the disorganization in the labor market and the inflation of the last year. It is hard to suppose that anyone who sensed the mood of the country could have believed there was danger that these controls would become permanent. It is difficult also to suppose that anyone could take seriously the idle talk that price and production controls were inhibiting production when a freshman would have observed (first) that more stringent controls had but recently coincided with the largest expansion in national product in history and (second) that the economy was currently in a state of full or more than full employment. One finds it strange that this disorganization was invited by conservatives. The gods must muse at the recklessness with which American capitalism is abused by its most vocal defenders.

One final point. In this paper I have illustrated points of theory, in the main, from the early years of the war. This is proper for it was then that the basic pattern of control was being formed. I do not want to imply for a moment that I consider these early achievements more distinguished or more difficult than later ones. In the case of OPA, specifically, I am sure it was a happy decision of President Roosevelt's to launch the agency under the leadership of such an imaginative and courageous economist and public servant as Leon Henderson. But perhaps the really thankless task of the war was that assumed by the public-spirited businessmen who took over the going concern, took on its highly vocal opponents and protected and developed it for three difficult years.[24]

[24] Perhaps the most distinguished public servants of all were those who remained with the agency through both regimes.

# GUARANTEED WAGES

*By* Werner Hochwald*

Wage guarantee plans have become part of the current quest for income security, and some of their theoretical aspects have recently been discussed in the economic journals.[1] This paper will attempt to explore some further implications of the trend toward more rigid labor cost in a collective bargaining economy where public policy has to define the bargaining unit most likely to harmonize short-run pressures for security with the long-run forces of dynamic equilibrium. In Section I the economic effects of wage guarantees are discussed; in Section II various proposals to encourage the introduction of guarantee plans are examined; and in Section III some tentative conclusions are offered.

## I. *Economic Effects*

When the freedom of entrepreneurial decision to decrease labor input in the short run is limited, the most obvious economic effect of a wage guarantee is the shift from variable to fixed labor cost. This shift is of course but one manifestation of growing rigidities in the factor market at a time when the quest for security has become a powerful economic motive through all levels of society. It therefore appears expedient to discuss the economic effects of wage guarantees in two steps. First, we shall consider guarantees which do essentially no more than formalize already existing limitations on entrepreneurial freedom. Second, we shall analyze plans which would materially add to present cost rigidities.

### 1. *Guarantees Which Formalize Already Prevailing Cost Rigidities*

Formal wage guarantees are not now and never have been prevalent in the American economy.[2] Yet while formal plans are uncommon, most

* The author is assistant professor of economics at Washington University.

[1] Rita Ricardo, "Annual Wage Guarantee Plans," *Am. Econ. Rev.*, Vol. XXXV, No. 5 (Dec., 1945), pp. 870–90; and Wassily Leontief, "The Pure Theory of the Guaranteed Annual Wage Contract," *Jour. Pol. Econ.*, Vol. LIV, No. 1 (Feb., 1946), pp. 76–79.

[2] The fragmentary experience with formal wage guarantee plans has been described in a number of recent articles. For select references, see Laura Thompson (compiler), *The Guaranteed Annual Wage and Other Proposals for Steadying the Workers' Income* (Washington, U. S. Dept. of Labor, 1945). A comprehensive survey of various agreements has been summarized in Bull. 828 of the U. S. Bureau of Labor Statistics, *Guaranteed-Employment and Annual-Wage Provisions in Union Agreements* (Washington, 1945). For a study made by the National Industrial Conference Board, see F. Beatrice Brower, "Guaranteed-Wage Plans in Practice," *Conference Board Management Record*, Vol. VIII (1946), pp. 101–105.

An excellent account of past experience and present attitudes has been given by Edwin E.

executives[3] and supervisors, many office and professional employees, older production workers, and key employees generally now enjoy a considerable measure of job security. The formal wage guarantee then is often only a more careful and more definite statement of managerial policy adopted in any case by most companies which remain in existence for some period of time. A large majority of the successful guarantee plans is of just this type, a fact to be expected as long as competitive pressures prevent any individual company from accepting a radically different cost pattern.[4]

Formal wage guarantees are based either on an attempt to regularize the actual work schedules beyond what has been customary in the industry,[5] or simply on the principle of averaging wage payments through busy and dull periods, or both. In the latter case, loan and savings plans serve somewhat the same purpose as formal wage guarantees. Under competitive conditions, all plans must include limitations to be practical. These limitations may take different forms. As to coverage, even in stable industries the guarantee can be extended only to permanent employees, with the practical effect that formal plans may only rephrase already existing seniority protection. As to time, few plans extend beyond one year, while many companies guarantee less than fifty-two weeks' pay. As to total liability, the guarantee may be suspended in any

---

Witte, "Steadying the Worker's Income," *Harvard Bus. Rev.*, Vol. XXIV (1946), pp. 306-25. For another general discussion, see "Annual Wage Plans in the United States," *Internat. Lab. Rev.*, Vol. LIII (1946), pp. 49–58. Management's approach has been presented by Joseph L. Snider, "Management's Approach to the Annual Wage," *Harvard Bus. Rev.*, Vol. XXIV (1946), pp. 326–38. The three most publicized plans, those of Geo. A. Hormel and Co., Nunn-Bush Shoe Co., and Procter and Gamble Co., have been described by Jack Chernick and George C. Hellickson, *Guaranteed Annual Wages* (Minneapolis, 1945).

More information is to be expected from the Guaranteed Wage Study sponsored by the U. S. Office of War Mobilization and Reconversion. This study was initiated by President Roosevelt in March, 1945, following a recommendation of the National War Labor Board "for a thorough inquiry into guaranteed wage plans and the possibility of their future development in American industries as an aid in the stabilization of employment and the regularization of production." An *Interim Report of the Guaranteed Wage Study*, published by the Office of War Mobilization and Reconversion on November 21, 1946, presents findings to date, and makes certain specific recommendations to encourage the introduction of guarantee plans.

[3] On the stability of executive salaries throughout the depression, see John C. Baker, *Executive Salaries and Bonus Plans* (New York, 1938).

[4] Cost figures presented in the *Interim Report of the Guaranteed Wage Study*, worked out for six establishments over a five-year period with fluctuations in employment volume comparable to the years 1937–41, show that average annual costs, for the five-year period, of guaranteeing continuous full-time pay to substantially all employees would have ranged from 1.3 per cent of payrolls for a paper company to 20 per cent in a steel company. The relatively low additional cost burden of formal wage guarantees appears to be due, in some cases, to the fact that labor costs are already fixed to a remarkable degree.

[5] The much publicized plans of Hormel, Nunn-Bush, and Procter and Gamble provide well-known illustrations.

year after payments for time not worked reach a certain percentage of the guaranteed annual pay roll,[6] in which case the guarantee has the practical effect of a dismissal wage. Total liability is also limited where the guarantee is defined in proportion to the value of output.[7] Another most important safeguard is the retention of managerial freedom to shift workers between different jobs or departments, thus keeping costs variable as to individual jobs and departments though they may become fixed for the firm as a whole.[8] Finally, a so-called guarantee often amounts merely to a statement of the company's policy to maintain a certain degree of wage or employment regularity, without legal compulsion, though in a growing number of recent cases the guarantee has become part of a formal union agreement.

While these limited guarantees do not entail any wide shifts in the prevailing cost structure of the typical firm, they do change to some extent input-output relationships. For the individual firm and worker, perhaps the most obvious effect is a reduction of labor turnover, the same or slightly larger fixed total payroll now spent on a steadier labor force, which in turn is likely to mean improved labor relations and higher labor productivity. It is true, of course, that additional security may also encourage laxity and lead to a general lowering of morale, but the experience with annual wage plans indicates that workers have usually responded favorably to well-defined and -administered guarantees. The formal recognition of input rigidities, therefore, may actually decrease rather than increase unit cost. This favorable effect will materialize to an even larger extent where wage guarantees are based not on the mere averaging of pay checks but the actual stabilization of work schedules, enforcing a better utilization of the general overhead and thus leading to an all-round reduction of total unit cost.

The public, of course, is benefited by any higher labor productivity and lower unit cost to the extent that these economies are passed on to the final consumer. In addition, more regular incomes to the workers may result in a favorable shift of the propensity to consume,[9] irregular incomes encouraging spending habits which accentuate cyclical fluctua-

[6] This proviso protects firms subject to wide cyclical fluctuations; it has been recommended in the *Interim Report of the Guaranteed Wage Study*.

[7] Illustrated by the "share-the-production" plan of the Nunn-Bush Shoe Company.

[8] Geo. A. Hormel and Co. has developed three methods to make transfers effective. First, an "extra gang" of new employees is set up from which help is drawn as it is needed seasonally in various departments. Second, various workers receive special training to enable them to move out of their regular department and take over some other production function. Third, additional equipment is provided to permit each department to perform more than one operation.

[9] The favorable effects of the annual wage plan of Geo. A. Hormel and Co. on the city of Austin, Minnesota, have been described by Jack Chernick, *Economic Effects of Steady Employment and Earnings* (Minneapolis, 1942).

tion. Finally, the more definite security, which makes for more productive workers, may also act as an independent source of "psychic income" for the employees who are encouraged to develop a feeling of "really belonging" to their community and trade. Yet while all these advantages may be granted, and the general desirability of wage stabilization schemes on the part of individual employers readily accepted, the question remains whether more far-reaching shifts in the cost structure of American industry, as contemplated by recent union demands[10] in contrast to the limited guarantees thus far discussed,[11] will accrue to the public interest.

## 2. *Guarantees Which Add to Prevailing Cost Rigidities*

The economic effects of a wage guarantee which increases appreciably the fixed labor costs of the individual business unit will again be analyzed in two steps. Under (a) we shall consider the impact of a shift from variable to fixed labor cost on the *individual firm*. Under (b), the complex effects on the *aggregate economy* of a drift towards more rigid labor costs will be briefly studied.

(a) For the *individual firm*, the most important and most obvious result of growing cost rigidities is a shift in the "optimum scale of enterprise." With larger and larger investments in relatively fixed agents necessitated by institutional changes in the labor market, the range of decreasing unit costs widens for the firm, and the optimum point of output is shifting to the right on the conventional cost-output diagram. This trend toward "big business," initiated by cost considerations, is intensified by the growth of uncertainty which results from the employment of relatively fixed agents. Long-run commitments in the purchase of fixed agents presuppose a longer planning period, a wider "horizon"[12] of the individual firm, which in turn increases uncertainty and the tendency to protect profit expectations through demand manipulation or product diversification. Demand manipulation implies the growth of selling costs and all other aspects of monopolistic competition, an attempt to adjust demand to fixed resources rather than to adjust reresources to a shifting demand. Product diversification permits more

[10] In 1943 and 1944, in dispute cases certified for settlement to the National War Labor Board, the large CIO unions demanded guarantees of a full year's employment for not less than 40 hours per week, at wartime wage rates, for all employees on the seniority lists. These demands inspired the Presidential request for the Guaranteed Wage Study referred to above; see footnote 2.

[11] The fundamental differences between the few widely publicized plans of individual employers in relatively stable consumer goods industries and the recent demands for industry-wide guarantees in capital goods industries subject to wide cyclical fluctuations have already been emphasized by Rita Ricardo, *op. cit.*, pp. 885–86.

[12] This terminology has been suggested and defined by Jan Tinbergen, "The Notions of Horizon and Expectancy in Dynamic Economics," *Econometrica*, Vol. I (1933), p. 247.

efficient utilization of fixed agents, making costs which are fixed for the firm as a whole variable for individual operations and products. Both demand manipulation and product diversification are likely to restrict opportunities for new firms and to increase the optimum size of the typical business unit. Finally, only the relatively large firm appears able to cope with certain administrative problems of the guaranteed wage, especially where fixed labor costs call for the substitution of former outside pressures towards efficiency by new internal incentives and opportunities for promotion—in short, a carefully devised system of personnel administration.

(b) For the *aggregate economy*, the result of growing cost rigidities defies any simple analysis. If we could accept some standard of perfect or pure competition as our test of relevancy, we should view, of course, with great alarm all the monopolistic interferences with resource allocation which are likely to follow from the shift toward fixed labor cost. But any such approach presupposes that a more flexible cost pattern would actually lead to a more efficient resource allocation; it presupposes that labor cost rigidities are a cause rather than the effect of resource immobility in the labor market; to put it still differently, it presupposes identity of cost to the private firm with cost to the community, identity of individual and social cost. Yet such assumption appears unjustified for even where labor costs are variable for the individual firm, they still may be fixed for the community at large as long as the worker is unable or unwilling to accept other employment. Resource mobility, therefore, may be determined by prevailing community attitudes and opportunities, whether these input rigidities find expression in the institutional pattern of business costs or not, and the extent to which labor cost rigidities actually interfere with or encourage the most "efficient" resource allocation will depend on the extent to which they adequately reflect the ultimate community choice between economic security and "progress."

Any such search for standards of reference to test the adequacy of institutional cost patterns involves a discussion of factor divisibility, as it determines the status of resources in the market and their opportunity cost, and thus raises the most profound problems of social organization. For the purposes of this paper, however, we shall ignore these broader implications by stipulating as given a growing quest for security in the labor market, and by further limiting our discussion to the case of most obvious resource misallocation, the case of unemployment. The question then reduces itself to an examination of some proximate relationships between fixed business cost of labor input and certain types of unemployment, like casual, cyclical, frictional, seasonal, and structural maladjustments. It is realized, of course, that any such

classification of employment patterns presents a serious oversimplification, but it is hoped that it may prove helpful to establish at least some crude and preliminary tests whether the shift toward fixed labor cost will have favorable or harmful effects on the aggregate economy.

In any attempt to stabilize those employment relations which are usually described as *casual* two quite distinct cases can be observed. First, there is the worker whose employment is casual because his productivity is low, the marginal worker. Here, any enforced wage guarantee is likely to discourage the hiring of new workers whose long-run productivity is doubtful and therefore to discourage employment. The attempt to fix marginal labor cost and thus to bar short-run marginal adjustments is likely to have disproportionately heavy repercussions on profit expectations.[13] Second, there is the quite different case of an entire industry characterized by casual employment patterns, illustrated by the building trades and the hiring methods for longshoremen. Here, "decasualization" of the industry through introduction of fixed labor cost holds great promise for a more efficient utilization of resources which are permanently attached to the trade though only intermittently employed. Such "decasualization" would conceivably transform a large labor pool into a smaller, more regularly employed labor force, leading some of the casual workers to look for more productive employment opportunities elsewhere and thus actually encouraging resource mobility; it would imply great changes in the competitive structure of the industry and the optimum size of the typical firm, though larger business units, in these conditions, may actually increase rather than decrease competitive pressures through technological improvements.[14]

Proponents of wage guarantees expect them to "provide substantial continuity of income to employees even in industries having marked sensitivity to *cyclical* factors."[15] Yet where cyclical unemployment is due to price maladjustments between different industries and resources, any attempt to introduce new cost rigidities is likely to accentuate rather than to remedy the fundamental causes of business fluctuations.[16] While job security may encourage steadier consumption patterns, any favorable shift in the propensity to consume will have much more beneficial effects on aggregate demand and employment if it is brought about

[13] There is general agreement that any sound wage guarantee must be limited to permanent employees. The more difficult question is to find a satisfactory line of demarcation; the very purpose of a wage guarantee is, of course, to make a permanent of a casual employee.

[14] A brief description of wage guarantees in the building trades has been given by Chernick and Hellickson, *op. cit.*, pp. 66–75.

[15] Quoted from "Principal Conclusions" of the *Interim Report of the Guaranteed Wage Study*. See footnote 2.

[16] For a fuller discussion of the purchasing power argument, see Rita Ricardo, *op. cit.*, pp. 885–90. Also Oscar Lange, *Price Flexibility and Employment* (Bloomington, 1944), and especially Milton Friedman, "Lange on Price Flexibility and Employment," *Am. Econ. Rev.*, Vol. XXXVI, No. 4, Pt. 1 (Sept., 1946), pp. 613–31.

by methods which have a less immediate relation to business cost. Income security measures other than the guaranteed wage appear therefore preferable in all situations where the major concern is an attack on cyclical unemployment.[17]

Cost rigidities are likely to increase rather than decrease *frictional* unemployment, especially whenever costs are fixed close to the margin and therefore discourage marginal adjustments. Idle resources, in those circumstances, will find it more difficult to find new employers. Any attempt to overcome frictional unemployment must obviously be concerned with encouraging rather than discouraging resource mobility between different firms, through employment exchanges and, more fundamentally, new employment opportunities. Dismissal wages or severance pay, as a contribution to moving and retraining expense, may offer a more satisfactory method of allocating the social cost of frictional unemployment and resource mobility to individual business units. Certain types of limited wage guarantees may have the practical effect of severance pay.

Wage guarantees have to make their most important contribution to employment stabilization in the case of *seasonal* fluctuations where resources are attached to the industry but only intermittently employed, thus representing a special case of casual employment patterns. Here, the trend toward fixed labor cost is likely to have few adverse effects on the community, but will encourage the more efficient utilization of factors which are underemployed, converting again, like in the case of "casual" industries, a stagnant labor pool into a—possibly smaller—active labor force. As a matter of fact, most successful experiments with wage guarantees, at least thus far, have been based on efforts to mitigate seasonal irregularities in production schedules, as illustrated by the Procter and Gamble Company, manufacturing soap and shortening, Geo. A. Hormel and Company for meat packing, and the Nunn-Bush Shoe Company.[18]

Perhaps the greatest difficulties arise in an attempt to appraise the effect of cost rigidities on *structural* unemployment where whole industries or regions undergo fundamental shifts in their production or demand functions. To the extent that wage guarantees convert a stagnant labor pool into a smaller active labor force, they may encourage the outward migration of redundant resources and thus contribute to resource mobility between industries or regions. Yet fixed labor cost may also raise new barriers to interindustry mobility of workers and thus accentuate structural maladjustments. There is great danger that the

[17] Experience shows a high mortality of wage guarantees in durable goods industries with a marked sensitivity to cyclical fluctuations; see Brower, *op. cit.*, p. 103.

[18] The relative success of wage guarantees in perishable consumer goods industries subject to seasonal fluctuations—as contrasted with durable goods manufacturing sensitive to cyclical disturbances—is confirmed by many case studies; see Brower, *op. cit.*, p. 103.

quest for security inspires measures which defeat their very objective, keeping resources in industries whose ultimate decline the community cannot and will not prevent, without providing that direction in employment placement which must be given to and accepted by the workers to avoid any undue rigidity in the industrial distribution of the labor force.[19]

The economic effects of guaranteed wages on the aggregate economy, then, depend on the extent to which the resultant business cost structure will conform or interfere with "economical" resource allocation, where "economical" is defined by the ultimate community choice between security and change. In cases of cyclical, frictional, or structural unemployment, the trend toward cost rigidities is likely to defeat its very purpose of increasing income security, and public policy recommendations with respect to the guaranteed wage can therefore be tested by establishing some crude categories of employment patterns to which they are applied. To this task we shall now turn.

## II. *Public Policy*

Under competitive conditions, as indicated before, wage guarantees of the individual employer cannot go far beyond the formalization of already prevailing cost rigidities. Public policy has to decide how far existing market pressures should be eased or shifted to encourage or enforce more far-reaching changes of the business cost structure. Some of these shifts in market pressures will occur almost imperceptibly, industry adjusting itself to new community attitudes in an effort to cultivate good "public relations." Others will result from more conscious attempts on the part of government to introduce new competitive patterns. In the latter case, two different approaches are possible. *First*, the government may provide for guaranteed employment through general compulsory legislation or some ***general incentives***, compensating employers for labor cost rigidities by other concessions, *e.g.*, tax privileges. *Second*, the government may redefine ***collective bargaining*** practices and rights in the factor market. Regarding the first approach, we shall limit our discussion to a brief consideration of the recommendations made in the *Interim Report of the Guaranteed Wage Study*.[20] The remainder of this section will be devoted to an examination of collective bargaining in its relation to wage guarantees.

### 1. *General Incentives*

General incentives recommended to encourage the introduction of wage guarantees again take different forms, but all have in common

[19] For a discussion of these problems against the background of British experience, see Gertrude Williams, *The Price of Social Security* (New York, 1944).

[20] See footnote 2.

some special inducement to outweigh the competitive disadvantage of rigid labor cost. This inducement may consist of (a) tax privileges, (b) special subsidies, or (c) exemption from other labor standards, *e.g.*, overtime.

(a) *Tax privileges* for employers refer to either the tax base or tax rates as applied to firms granting to their workers certain prescribed minimum wage guarantees. A shift in the *tax base* is implied in the recommendation to classify contributions to trust funds for wage guarantees as allowable expenses under the income-tax laws.[21] Such proposal, in its practical effects, would permit the carry-back of business losses incurred as the result of guarantee plans, and therefore would contribute to the generally sought objective of lengthening the accounting period for the computation of the income-tax base. Keeping in mind, however, the great difficulty of distinguishing between desirable and harmful effects of wage guarantees on the aggregate economy, any more general provision for the averaging of profit and loss in different years would appear preferable to the hazard of deliberate discrimination among business reserves and policies.

Lower *tax rates* for employers with a favorable employment record have been applied through experience rating in unemployment compensation. Here again, the difficulty of establishing a clear relationship between individual business policies and the causes of unemployment has been given as an argument against tax incentives. But if this argument is accepted, the whole system of financing unemployment benefits through employer contributions appears of doubtful merit, and as long as the present scheme is retained, therefore, some differential advantage obtained as a result of favorable experience rating offers almost the only justification for payroll taxes. The problem remains, of course, that unemployment benefits are now paid to two quite distinct categories of workers. Some claimants remain attached to their firm or industry and, as casual or seasonal workers, should be, at least partly, maintained by their former employer. Other workers, suffering from cyclical, frictional or structural unemployment, should be encouraged to move, and their cost of maintenance allocated to different sources. It is this dual function of unemployment compensation, as it operates at present, that makes it so difficult to find any satisfactory place for experience rating, and a solution is likely to be found only through a more definite recognition of the distinct employment patterns the system must be designed to serve.

(b) *Special subsidies* to guaranteeing employers are implied in the proposal to pay supplementary unemployment compensation to workers who receive guarantee payments.[22] Claimants awaiting recall by their

[21] "Principal Conclusions" of the *Interim Report of the Guaranteed Wage Study*.

[22] *Loc. Cit.*

former employer are now paid unemployment benefits in many states, though such workers are hardly "available" in the labor market.[23] This practice only highlights the dual function of unemployment compensation and the urgent need of functional differentiation for purposes of fund raising as well as benefit administration. With benefits paid to workers who remain attached to "their" firm, the temptation grows to use general funds for subsidizing individual payrolls, hindering rather than promoting the stabilization of actual production schedules. Any such practice greatly strengthens the case for experience rating or even more effective differential tax advantages to employers whose workers do not use unemployment trust funds as a payroll subsidy; it also argues against the liberalization of benefits which are possibly used to perpetuate stagnant labor pools rather than to facilitate resource mobility.[24]

(c) *Exemption from other labor standards*, to compensate for the cost burden of a wage guarantee, is illustrated by attempts to free guaranteeing employers from the obligation of having to pay overtime premium rates for all work in excess of 40 hours per week.[25] At present, the Fair Labor Standards Act[26] grants such exemption to employers who guarantee 2,080 hours of employment per year, the equivalent of 40 hours per week for 52 weeks. There is a general agreement that this requirement is too strict to promote the wider adoption of wage guarantees, especially in industries where the regular hourly rate of pay is already high to make up for intermittent employment. By March, 1944, only 57 firms had availed themselves of the exemption by filing their union contracts containing such guarantees with the Wage and Hour Administration.[27] The desirability of liberalizing these exemptions depends again on the rationale of overtime. To the extent that overtime penalty rates encourage regular production schedules and a more economical utilization of fixed resources, the standard work-week should be safeguarded. On the other hand, a low standard work-week established mainly for the purpose of "spreading the work" among a redundant labor supply should yield to wage guarantees.

[23] For a survey of prevailing administrative practice, see Olga S. Halsey, "Claimants Awaiting Recall—Their Special Problems of Availability and Suitability of Work," *Social Security Bull.*, Vol. IX, No. 10 (Oct., 1946), pp. 8–15.

[24] The importance of functional differentiation in unemployment compensation grows, of course, with the liberalization of benefits. As long as benefits are of short duration, they can have but little influence on labor mobility.

[25] "Principal Conclusions" of the *Interim Report of the Guaranteed Wage Study*.

[26] Section 7 (b) (2).

[27] A list of these firms is given in an appendix to Alice L. Nielsen, *Guaranteed Employment and Annual Wage Plans* (Washington, National War Labor Board, Research and Statistics Report No. 25, 1944).

### 2. *Collective* **Bargaining**

Major changes in the cost structure of American industry are to be expected from the growth of collective bargaining in the labor market rather than the minor incentives discussed above. Collective bargaining for wage guarantees brings to a focus "the more general tendency to replace the conventional method of monopolistic marketing—which allows the other party to the transaction to choose freely the amount which it will buy (or sell) at a given price—with a new kind of agreement which fixes both the total volume as well as the price of purchase."[28] As long as trade unions limit themselves to the setting of a unique price for all labor hired and let the employer determine freely the quantity of his purchase, the amount of labor exchanged in each transaction lies within the interval determined by Böhm-Bawerk's "marginal pairs." When unions, however, use their monopoly power to influence not only the wage rate to be paid but also the amount of labor to be purchased, the possible "solutions" of bilateral monopoly are extended, the extreme point of equilibrium now being equivalent to exchange under conditions of perfect price discrimination.[29] This wider range of possible equilibria in the price-quantity type of bilateral monopoly, as illustrated by the guaranteed wage contract, reflects the great variety of cost patterns that may result from shifting factor divisibility in the labor market.

A wider range of labor cost patterns resultant from monopolistic "quantity fixing" entails dangers as well as possible advantages for the aggregate economy. The dangers are obvious. As long as collective bargaining is limited to price fixing, unionization affects the competitive status of firms and industries through equalizing wage rates, but maintains the importance of non-wage factors, *e.g.*, worker productivity, as highly variable determinants of unit labor costs.[30] With the growth of "quantity fixing," the competitive importance of non-wage elements, too, is likely to decline, giving strong impetus to further monopolistic restrictions. Even more serious is the danger of disequilibrium and unemployment as a result of different "horizons" on the part of monopolistic traders. In the purely competitive market, the parties have no choice but to accept the market price. In the monopolistic market, true alternatives exist, and these alternatives are shaped in the minds of the traders by their expectations of future supply and demand functions within their "horizons." In these conditions, equilibrium implies that

[28] Leontief, *op. cit.*, p. 79.

[29] *Loc. cit.*; also John von Neumann and Oskar Morgenstern, *Theory of Games and Economic Behavior* (Princeton, 1944), p. 564.

[30] See Frederick H. Harbison, "Some Reflections on a Theory of Labor-Management Relations," *Jour. Pol. Econ.*, Vol. LIV, No. 1 (Feb., 1946), pp. 1–16.

the actions and expectations of the different persons trading must be consistent;[31] the wider the range of possible "solutions," the wider also the range of potential inconsistency and unemployment. The price-quantity type of bilateral monopoly in the labor market implies not only potential deadlock between employers and workers aspiring to separate points of their contract curve, but also, and more significantly, clashes between the conflicting interests of workers attached to different industries whose yearning for security is frustrated through the very attempts of strong unions to "overprotect" their members against change.

While these dangers are obvious, they are balanced by potential advantages. Once collective bargaining in the labor market is accepted by the community to express its quest for security, any widening in the area of bargaining may facilitate adjustment of the different interests represented in the negotiations, the cost rigidities of a wage guarantee being softened by other concessions. These concessions may refer either to the wage rate or to the system of "industrial jurisprudence,"[32] which has always imposed serious limitations on labor cost flexibility in the unionized trades. Workers covered by a wage guarantee can afford to accept a somewhat lower hourly rate than employees whose work is irregular, though in practice this concession would likely take the form of foregoing new demands for a raise rather than of accepting wage cuts. More important is the possibility of working out new compromises with respect to those restrictive rules which have traditionally served to enhance the security of union members through some monopolistic "quantity fixing." Seniority provisions may have the indirect effect of a wage guarantee for the older worker, but often take the form of a rigid strait-jacket which seriously limits mobility within the firm;[33] outright wage guarantees may offer a more flexible labor cost structure than seniority rules if the former are substituted for rather than made supplementary to the latter. Similar considerations apply to all other shop rules designed to effectuate union job control; whenever wage guarantees are broadly defined to permit the transfer of workers between different jobs and departments, they may increase rather than decrease unit cost flexibility for the employer. Assured of a stable wage, workers may be less inclined to stretch out their jobs or to resist labor-saving and other technological improvements.[34] They also may develop more

[31] See J. R. Hicks, *Value and Capital* (Oxford, 1939), p. 58.

[32] See Sumner H. Slichter, *Union Policies and Industrial Management* (Washington, 1941), p. 1.

[33] This happened on the railroads and in the printing trades; there is evidence of the same danger in the newly organized mass-production industries. See Harbison, *op. cit.*, p. 11.

[34] Sir William H. Beveridge expects that employment guarantees will lessen the resistance of workers to technical change; see his *Full Employment in a Free Society* (New York, 1945), p. 197. Geo. A. Hormel and Co. inaugurated its three methods of shifting workers between differ-

loyalty to the company employing them, compensating for the cost burden of a guaranteed wage by lessening the hazards of work interruptions and labor disputes.

Whether these potential advantages outweigh the dangers of more extensive price-quantity bargaining in the labor market, will depend on the degrees to which narrow and rigid "job" controls are replaced by a broader and more flexible concept of "work" guarantees, the worker not insisting on protection in "his" job but conceding freely transfer to other departments or occupations.[35] Attitudes favorable to a broader concept of wage guarantees can be brought about in two ways. First, there may be a conscious attempt to condition the mind of the worker to accept the changes in occupation and location which the employment opportunities require, also to replace market incentives through indoctrinating the worker with some more "professional" production standards. Yet, while some indoctrination appears essential to any system of personnel administration, reliance on it as a major force in employment direction raises fundamental problems of how to administer this direction without seriously impairing the individualistic bases of our society. A second approach, more congenial to the American scale of values, implies the search for new standards of efficiency in the labor market through defining the bargaining unit within which monopolistic combinations are most likely to harmonize short-run pressures for security with the long-run forces of dynamic equilibrium. In this search for a new concept of "workable competition,"[36] collective bargaining for wage guarantees receives its public sanction from favorable cost adjustments enforced on the parties through potential competitive pressures of other firms and resources. For purposes of public policy then, the problem emerges how to discover those bargaining relationships in the labor market which are most conducive to an "economical" cost and resource allocation, where "economical" again is defined by the ultimate community choice between security and change.[37]

---

ent departments (see above, n. 14) with the cooperation of the union. Richard A. Dupree, President of the Procter and Gamble Company, said in a recent meeting of the American Management Association: "We found that once the plan was in effect, we had no trouble getting our people to experiment and cooperate with us in working out important procedures of production—such as having, say, four people on a line doing what five used to do—because each man knew that he wasn't going to lose his job if the experiment were successful." (*Executive's Labor Letter*, November 13, 1945.)

[35] The practical difficulties here are illustrated by a recent survey of the National Industrial Conference Board, showing that hostile union attitudes, largely prompted by a desire to maintain jurisdictional claims and departmental seniority rules, have been the most important single reason for the discontinuance of guarantee plans. The problem is complicated, of course, whenever several unions are involved. See Brower, *op. cit.*, p. 103.

[36] See John M. Clark, "Toward a Concept of Workable Competition," *Am. Econ. Rev.*, Vol. XXX, No. 2 (June, 1940), pp. 241–56.

[37] The relations between security and change are, of course, more complex than the simple juxtaposition of the text suggests. Some security is necessary for a wide "horizon" to encour-

Definition of the bargaining unit, implying all the problems of factor divisibility, is the central issue of any market organization, and we shall limit our discussion again to some relatively obvious relations between employment patterns in the labor market and the business cost structure. Collective bargaining through trade unions had its origin in the attempts of journeymen to make more effective their common interest as a craft, and business unionism in this country has largely evolved on the basis of carefully defined craft jurisdictions. But crafts must insist on "job" rather than "work" controls to maintain their jurisdiction, and collective bargaining for wage guarantees within craft units will therefore add to rather than substitute for prevailing labor cost rigidities. Crafts can permit free mobility among different firms and industries within their trade jurisdiction, but are excluded by their very definition from encouraging occupational mobility within the firm; they will not easily concede the attachment to "their" trade, even if this attachment implies irregular and "casual" employment relations with individual firms.[38]

Bargaining for wage guarantees may promise more success with unions whose structure parallels the organization of industry, and the industrial unions of the newly organized mass-production industries indeed have made the most articulate demands for guaranteed employment.[39] But here another and even more serious problem arises. While bargaining in industrial units would permit to the parties new cost adjustments through intra-firm mobility, these adjustments are likely to be forthcoming only as long as the firm remains under some competitive outside pressure. Industrial as well as craft unions, however, tend to spread beyond the individual firm throughout the "industry," where industry is defined to comprise all firms which offer products in effective substitution. To gain effective monopoly power, the union must seek control over a widening area within which is determined the exchange value of goods and therefore the demand price for labor. Once this control has been established and "industry-wide bargaining"[40] introduced,

age investment and thus may be conducive to innovation and change. On this question see Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York, 1942), pp. 81–106; also G. H. Hildebrand, Jr., "Monopolization and the Decline of Investment Opportunity," *Am. Econ. Rev.*, Vol. XXXIII, No. 3 (Sept., 1943), pp. 591–601; and K. E. Boulding, "In Defense of Monopoly," *Quart. Jour. Econ.*, Vol. LIX, No. 4 (Aug., 1945), pp. 524–42. On the other hand, the rationale of traditional competitive doctrine is based on the obvious fact that no long-run security is possible without some opportunity of change. The simple text formula only intends to convey the wide range of alternatives open to the community in devising bargaining relationships retarding or accelerating resource mobility.

[38] One AFL leader, Frank Martel, President of the Detroit and Wayne County Federation of Labor, recently has criticized annual wage plans as impractical in seasonal industries and has taken the position that workers in these industries can be compensated for periods of idleness only through higher wage rates; see Witte, *op. cit.*, p. 311.

[39] Congress of Industrial Organization, *Guaranteed Wages the Year Round* (Washington, 1945).

[40] "Industry-wide bargaining" does not necessarily imply one formal master agreement for

the need for concessions diminishes, not only as to wage rates but also as to other elements of labor cost.[41]

The price-quantity type of bilateral monopoly in the factor market then greatly increases the need for maintaining competitive pressures in the product market. Accepting the trend toward "industry-wide bargaining," public policy is called upon to find new limitations on monopoly power through carefully confining the "industry," jealously guarding the right of new processes and products to compete with the established bargaining unit. The optimum size of enterprise being shifted by cost rigidities, some support of small business offering potential substitutes for the output of large firms becomes imperative, and great care must be taken that none of the general incentives, discussed above, discriminate against new ventures. Only with these safeguards is there any indication that "quantity fixing" in the labor market can contribute to more "economical" resource allocation, mitigating "casual" and seasonal unemployment without creating new barriers to those cyclical and structural adjustments which are essential to the dynamic equilibrium of a market economy.

Responsiveness to competitive pressures in the product market is to be assured through providing for alternatives in the selection of representatives. The right to self-organization of the various factor interests within the bargaining unit must include the right to designate new representatives for the purpose of collective bargaining whenever the parties feel that existing organizations do not serve their long-run interests. While this only repeats the recognized labor relations policy of this country,[42] its execution presents great difficulties. On the part of labor, it raises the familiar problems of the closed shop, union democracy, local autonomy, rival unions, and protection of minorities, the latter issue becoming of increasing concern in conditions of "industry-wide bargaining" when any individual group anxious to experiment with new cost allocations may find itself a "minority." On the part of the employer, too, the trend toward large-scale organization reduces the former alternatives of shifting among different firms, increasing the strain placed on techniques of internal organization for representing the various interest groups and assuring responsiveness to competitive change.[43]

Pertaining more specifically to wage guarantees, public policy has to decide how often election of new bargaining representatives should be permitted and thus shifting loyalties among alternative interest group-

---

the whole industry. It suffices that one party is strong enough to impose identical terms. The latter type is the more customary form of industry-wide bargaining in the present American labor market.

[41] For an account of these possibilities see Henry C. Simons, "Some Reflections on Syndicalism," *Jour. Pol. Econ.*, Vol. LII, No. 1 (Mar., 1944), pp. 1–25.

[42] Section 9, National Labor Relations Act.

[43] On this question see Robert A. Gordon, *Business Leadership in the Large Corporation* (Washington, 1945), pp. 317–40.

ings encouraged, a decision implying the standard duration of collective agreements and commitments. Any time limitation exerts an obvious check on monopoly power, but may also narrow the "horizon" of the parties and give undue weight to short-run expediencies in contrast with constructive long-run efforts to bring about a more economical resource allocation. In this dilemma, guaranteed wages must be appraised against the broader background of a collective bargaining economy, where attempts toward steadying the worker's income express not only a growing quest for security but also a concomitant diffusion in the functions of management. The shift from "job" to "work" controls, which is implied in cost adjustments stirred by wage guarantees, represents only one incident of the joint search for an answer to common problems which is the essence of collective bargaining where management must rely on its personal and leadership qualities rather than on its line authority. In such an environment, the sphere of exclusive management prerogatives shrinks, and the locus of management becomes less distinct. The result may be to impair management efficiency, to create inflexibility of operation and some resistance to change, but such "bureaucratic stiffening of the joints" may also be the price to be paid for the continued loyalty of the community to a reasonably free market economy.

Public policy must maintain at least some competitive pressures in the product market to prevent these "bureaucratic" tendencies from defeating through resource immobility the very ends they are thought to accomplish, lest a community frustrated in its yearning for security under the necessarily somewhat "disorderly" processes of democracy and free enterprise turn to new "efficiencies" under some "totalitarian" indoctrination. Looking at guaranteed wages then in a wider perspective, they are a phase in that rhythm of history which has been described by a great American economic historian: "The amount of permissible free competition . . . varies with the social need. In differing degree it must always be active . . . but it must always be subject more or less to group control, for the interest of the group predominates, and each member of the group consciously or unconsciously acknowledges this. The self-centered, active individual is a disruptive force, and there are periods in the rhythm of history when the cake of custom must be broken, when that disruptive, innovating energy is socially advantageous and must be given freer opportunity. But the social or group motive is even then latently powerful, while for normally longer periods of the rhythm the motive of social stability and order enjoys the more marked social approval. It then becomes active in building and defending social institutions and in seeking security for its members".[44]

[44] Edwin F. Gay, "The Rhythm of History," *Harvard Graduates' Magazine*, Vol. XXXII, No. 125 (Sept., 1923–24), p. 12.

## III. *Conclusions*

The following statements may serve to indicate the nature of our main conclusions:

1. The fragmentary experience with wage guarantee plans refers mainly to cases where the guarantee does essentially no more than formalize already existing limitations on entrepreneurial freedom; in these circumstances formal programs for security of employment may improve industrial relations and labor productivity.

2. To the extent that wage guarantees add to already prevailing business cost rigidities their most important economic effect on the individual firm is a shift in the "optimum scale of enterprise"; their effect on the aggregate economy will depend on their relation to general resource mobility in the factor market.

3. Public policy must attempt to harmonize individual business cost allocation with the social cost determined by general resource mobility in the factor market; such attempt implies the distinction between casual or seasonal employment patterns, where workers remain attached to a given labor market regardless of wage guarantees, and cyclical or structural unemployment, where income security programs assuring some incentives to mobility appear preferable to wage guarantees.

4. Most of the general incentives recommended to encourage the introduction of wage guarantees do not adequately distinguish between different employment patterns; the problem is illustrated by the difficulty of finding a satisfactory place for experience rating in unemployment compensation.

5. Wage guarantees established through collective bargaining may increase labor productivity and unit-cost flexibility whenever they are substituted for instead of added to other union job controls and thus facilitate intrafirm resource mobility; this result is to be attained more likely in industrial rather than craft bargaining units.

6. Collective bargaining in the factor market will receive its most important incentive for favorable cost adjustments through competitive struggles in the product market; maintenance of competition in the product market is therefore most likely to harmonize short-run pressures for security with the long-run forces of dynamic equilibrium in the factor market.

7. Industry-wide bargaining which eliminates competition in the product market is dependent on the development of non-market incentives; any such development implies fundamental changes in the individualistic bases of a free enterprise economy.

# FEDERAL RESERVE OBJECTIVES AND POLICIES RETROSPECT AND PROSPECT

*By* E. A. GOLDENWEISER*

At the time the Federal Reserve System was established there was little consciousness in the minds of its proponents of the quantitative approach to credit which was later generally accepted as the basis of central banking policy. For example, Paul M. Warburg in summarizing what the Federal Reserve act was supposed to achieve said in a letter to Senator Glass in 1913: "From now on we shall witness a gradual elimination of the bond secured currency, of scattered reserves, of immobilized commercial paper, and of pyramiding of call loans on the stock exchange." These four objectives represent closely the ideas for which Carter Glass stood at the time he sponsored the Federal Reserve act. There is no suggestion of a general control or regulation of the supply, cost and availability of money, to say nothing of broader objectives such as economic stability. Such understanding as the builders of the System had of broader purposes is vaguely indicated in the phrase "accommodation of commerce and business" which occurs in the original act in connection with the establishment of discount rates.

### *Purposes of the Federal Reserve Act*

What the builders of the Federal Reserve System were constructing was machinery by which temporary scarcities of funds and particularly of currency could be met by obtaining accommodation from a central reservoir. The concentration of reserves in the twelve Federal Reserve banks was intended to remove them from New York where they were supposed to be feeders of speculations and make them available instead for use by all member banks whenever their own funds were not sufficient to accommodate commerce and business. In practice, while the Federal Reserve System has made it possible for all member banks to obtain additional funds by rediscounting with the Federal Reserve banks, the practice of holding large balances with New York banks where they can be used to make street loans has continued. This practice, which the authors of the act wished to eliminate, as a matter of fact performs a useful anticyclical function. In times of short demand for funds locally

* The author, at present a member of the Institute for Advanced Study, Princeton, N. J., was formerly director of the Division of Research and Statistics of the Board of Governors of the Federal Reserve System. The present paper was originally presented to the Seminar on Monetary Policy at the Institute for Advanced Study.

they flow to the money market, where they ease conditions and encourage capital flotations. When local demands increase, that is, when business becomes more active, these funds flow back to meet regional demands, conditions in the money market harden with a consequent restraining influence on speculation. With the elimination of the rigidity of the pre-Federal Reserve mechanism, the reasons for attempts to eliminate the flow of funds in and out of New York have lost much of their validity.

As protection against the Federal Reserve System becoming an inflationary influence the framers of the act relied largely on restrictions on the character of notes eligible for discount, which were limited to self-liquidating commercial and agricultural paper, and on the imposition of convertibility and reserve requirements on the Federal Reserve banks themselves.

### *Factors Overlooked in 1913*

The original conception of the workings of the Federal Reserve System overlooked two fundamental conditions, which have since become familiar, in the actual operation of our banking system. First, that the purpose for which a note is drawn has no relationship to the use to which the proceeds of the rediscounted note are put. Secondly, that a dollar obtained from a Federal Reserve bank can become the basis of a credit expansion several times as large. Another concept of which the planners of the act were not aware and which is perhaps the most fundamental underlying the others is the difference between the impact of Federal Reserve operations on the banking system as a whole as contrasted with its impact on individual banks. It is apparent that the relationship between the character of discounted paper and the use to which a borrowing bank puts the proceeds, even if such a relationship existed, could not possibly extend to another bank to which the funds might be transferred. The idea is particularly meaningless when multiple expansion on a given basis of reserves is taken into consideration.

Throughout its history the Federal Reserve System has been under the spell of a dichotomy between the original concept based on selective regulation of individual transactions and individual banks and the broader idea of operation through general controls applied to the banking system as a whole. To a considerable extent the concept of general and global regulation has been centered at the Federal Reserve Board and in New York, as the money market and the point of contact with international affairs, and has been the background of interpretation by the System's economic staff, while the selective and individual bank point of view has been dominant at the other Reserve banks in their dealings with member banks.

### *Interlocking of Ideas*

While the quantitative or general approach was dominant in Federal Reserve discussions in the 1920's, the selective control idea was never abandoned or ignored. For example, in the Annual Report for 1923, which lays down the general principles of credit policy, considerable emphasis is placed on the quantitative approach, but nevertheless in this report occurs the following sentence: "The Board is fully aware of the fact that the problem of credit extension involves the question of amount or volume as well as the question of kind or character; otherwise stated, involves a quantitative as well as a qualitative determination." This would suggest that the primary approach was qualitative. Further on in the same paragraph: "It is the belief of the Board that there will be little danger that the credit created and contributed by the Federal Reserve Banks will be in excessive volume if restricted to productive uses." This suggests what was in the minds of the framers of the act, namely, that if every individual extension of Federal Reserve credit is on a proper basis, the aggregate cannot be excessive. This ignores the concept of multiple expansion. The 1923 report sums the matter up as follows: "Administratively, therefore, the solution of the economic problem of keeping the volume of credit issuing from the Federal Reserve Banks from becoming excessive or deficient is found in maintaining it in due relation to the volume of credit needs as these needs are derived from the operating requirements of agriculture, industry and trade, and the prevention of the uses of Federal Reserve credit for purposes not warranted by the terms or spirit of the Federal Reserve act." There is still no recognition of multiple expansion.

The fact that this approach confused the administrators of Federal Reserve credit was apparent in many instances. For example, there was a widespread belief that acceptances purchased by the Federal Reserve banks could not be the basis of inflation because the acceptances originated from trade in commodities. Consequently, bill rates were reduced on a munber of occasions at a time when the Federal Reserve System was attempting to restrain the growth of credit. This is what happened, for example, in the autumn of 1928 and again in the summer of 1929.

### *Crucial Decisions by the Federal Reserve System*

A brief review of crucial credit policy decisions by the Federal Reserve System might be suggestive in indicating the philosophy of credit policy underlying these decisions.

1. Discount rates were raised in 1919 and 1920 as anti-inflationary measures of a quantitative character. An important reason for these moves, however, was the mechanical fact that the reserve ratios of the

Federal Reserve banks were approaching the legal minimum. That these decisions were not altogether aggregative in approach, but also aimed at prevention of abuses by individual banks, is indicated by the fact that progressive discount rates were adopted at several Federal Reserve banks. A formula was devised by which at some banks it was determined to how much accommodation each member bank was entitled, and the rate progressed rapidly when this quota was exceeded. The most dramatic result of the plan was that one bank paid as much as 87½ per cent on a portion of its borrowings. The fact that the amount involved was trivial did not prevent the incident from being widely used as an indication of ruthlessness by the Federal Reserve System.

This progressive rate approach reflected another conception held by the planners of the System, namely, that the Federal Reserve banks obtain their loanable funds from member banks; hence, no member is entitled to use more than its share. This concept does not recognize the idea developed later that the Federal Reserve banks create funds rather than pass them on from one member bank to another. The idea is also defective on its own terms, because even if the purpose of the Federal Reserve System were to make it possible for banks needing assistance to receive it, through the Federal Reserve banks, from other members having excess funds, it would not be consistent to confine banks in need of additional funds to their share of the total for all member banks, including those with excess funds as well as those with deficiencies.

2. The second crucial decision was the adoption in 1923 of the principle that open market operations shall be guided with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country. This was a recognition of the quantitative principle and of the unity of the twelve Federal Reserve banks as well as of the different assets in their portfolio. It placed open market policy on the same basis as discount rate policy. One portion of open market operations, however, namely, the purchase and liquidation by Reserve banks of acceptances, was left outside of the control of the open market committee, which was guided by the above principle, and even of the Federal Reserve Board. The acceptance business was carried on as a separate activity with primary reference to the stability and expansion of the acceptance market. There is no evidence that there was recognition on the part of the operators of this market of its relationship to the total volume of Federal Reserve bank or member bank credit.

3. In the spring of 1924 the System adopted a policy of easy money reflected both in the reduction of discount rates and in open market purchases. It was a period when business was declining but credit was easy and there was a movement of gold into the country. The reasons

for the policy were largely international but it was at that time that the foundation for future credit expansion was laid, because the proceeds of the gold and the securities purchased during this period were not used to reduce discounts which were low but were added to member bank reserve balances. These additional balances were largely the basis of the speculative credit expansion which occurred in the next four or five years.

4. A similar but less important program of easy money was pursued in 1927. While this policy was less significant than that of 1924 because the effects of open market purchases were offset by gold exports, it has received more attention by commentators. This was presumably due to the fact that it occurred immediately before the final spurt and the collapse of the stock market boom.

5. In 1928–29 the System was engaged in attempting to restrain the rapid increase in security loans and in stock market speculation. Discount rates were advanced and securities sold in the open market. As already mentioned, however, the continuity of this policy of restraint was interrupted by reductions in bill rates in the autumn of 1928 and the summer of 1929.

6. The 1929 incident deserves more detailed reference. The influence of the selective approach and of the belief that the use of Federal Reserve credit can be controlled by attacking the behavior of individual banks in a particular credit field was apparent in this period. The Board wished "to restrain the use, either directly or indirectly, of Federal Reserve credit facilities in aid of the growth of speculative credit." At that time the Board objected to discounts by Federal Reserve banks of paper offered by member banks which had a large volume of loans on the stock exchange. The theory that these banks would be prevented from making stock exchange loans because such loans were not rediscountable had by that time been abandoned, but faith in the ability of the Federal Reserve System to control a general situation by regulating the behavior of individual banks still prevailed. There seemed to be no recognition of the fact that the reason the banks were heavily in debt was that the country had lost gold exports and that the Federal Reserve banks had sold securities in the open market. There was no way for banks to get out of debt or to reduce their debt except by a process of ten to one liquidation which the Board would never have been willing to inaugurate or sanction. No effective restraint of individual banks was possible, however, short of such large-scale liquidation because both street loans and Federal Reserve funds moved freely from one bank to another. Neither was there recognition of the fact that pressure on the money market banks would result in an even greater tightening of money and a sharper advance in rates to business borrowers than would have resulted from

an overall advance in discount rates.[1] It is clear in retrospect that the Board should either have ignored the speculative expansion and allowed it to collapse of its own weight, as has since been maintained by *post-facto* analysts, or it should have pursued a policy of a rapid rise in discount rates with a view to breaking the speculative expansion quickly before the tightness of money had an opportunity to affect productive and distributive enterprise. The course pursued by the System followed neither of these paths and was indicative of confusion and inadequate understanding of the forces that dominate the money market and of the impact of Federal Reserve action on the banking system.

It is of interest to note in passing that the Board was emphatic in saying that it neither assumes the right nor has any disposition to set itself up as an arbiter of security speculation or values. At that time this was orthodox Federal Reserve doctrine. An offer by the Dow-Jones services to install a ticker in the Federal Reserve offices was virtuously turned down. Federal Reserve authorities, however, could not fail to realize that the most important factor in speculative credit expansion as well as a great danger to economic stability was involved in the rapid rise of security prices. In the Securities Exchange act of 1934, which gives the Board power to determine margin requirements for security loans for the purpose of preventing excessive use of credit in this field, the formula laid down is based entirely on the rate of advance of individual security prices.

7. The next crucial decision by the System was the one which led to the large-scale open market operations early in 1932 when $100,000,000 of government securities were purchased during each of ten consecutive weeks. It was by far the largest series of transactions ever undertaken by any central bank for the purpose of easing credit conditions. The decision to engage in this action was primarily on a quantitative basis. What was desired was a general easing of credit conditions and the placing at the disposal of banks of a larger volume of reserves. There was no element of selectivity in the action, but there was recognition of the shortage of paper eligible for discount in the portfolios of many banks, and the consequent need for Federal Reserve credit flowing into the market through a different channel.

8. After the opening of the banks in March, 1933 there was such a large-scale return of currency from circulation and later such a large inflow of gold from abroad that the credit situation became extremely easy, without, however, resulting in a break in the economic depression

[1] A curious example of the independence of operations in the acceptance market is that in the spring of 1929, when the Board refused to approve an advance of discount rates from 5 to 6 per cent, the rate on acceptance was raised to a range from 5⅜ per cent to 5¾ per cent, depending on maturities.

which was gripping the country. By the summer of 1936 the banks had accumulated a large amount of excess reserves which made member banks largely independent of the Federal Reserve banks. In order to make it possible for these banks to intervene, if and when a speculative expansion would threaten, the Federal Reserve Board decided to use its newly acquired power to raise reserve requirements in order to immobilize a part of the excess reserves. Thus the Board adopted a policy of limiting potential as distinguished from actual credit expansion. It was careful to state that what it was dealing with were potentials and that the current policy of monetary ease would be continued. At that time such a dual policy was feasible because the banks still had a large volume of excess reserves even after increased requirements were met and because there were continued gold imports. In these circumstances the action taken had no perceptible effect on monetary conditions.

In the early spring of 1937 excess reserves were once more large and there was evidence of a minor boom in industry and in security values. For these reasons the Federal Reserve Board once more used its power over reserve requirements and raised them to the full amount permitted by law, that is, to double the basic level prescribed in the act. In taking this action the Board once more stated that monetary restraints were not a proper remedy for the current situation and that the policy of monetary ease would continue. In retrospect it seems that at this stage the statement and the action were not altogether consistent. A reduction of excess reserves to a relatively small volume, particularly at a time when banks had been accustomed to a substantial volume of excess reserves, and at a time when the economy had not yet recovered from depression, was definitely a restraining action, even though possibly a minor one. If the action should have been taken at all, it should have been stated that it was for the purpose of exerting moderate restraint in view of the development of unhealthy conditions. The action was interpreted as a restraint and has gone down in the record as one of the important elements ushering in the serious reaction of 1937 and 1938. This interpretation is not justified by the facts but the lesson to be learned from this experience is that central banking action should always be simple and easily explainable. A restraining action should not be taken with reliance on explanatory statements to indicate that no restraint was intended. The market will place its own interpretation on the action and this interpretation may make the action more restrictive than statistics alone would indicate. The psychological effect of central bank action, which is always an important part of its effectiveness, should not be confused by verbiage. A prompt total or partial reversal of an action, by the use of the same or another instrument, when undesirable

conditions develop, is not evidence of inconsistency or vacillation, but of alertness to changing conditions and of flexibility of monetary policy.

9. The next series of Federal Reserve actions had to do with the war. In general, during the war quantitative considerations were almost completely ignored and action was throughout based on a strictly selective basis, namely, the support of government finance. When the war broke out a large volume of government securities was purchased in order to prevent a break in bond prices. From then on and throughout the war the policy was one of providing banks with enough reserves to purchase all the government securities that were not taken by other investors and of maintaining stable bond prices and yields. In the pursuit of this policy the System purchased securities whenever it was necessary to support the market. It established a fixed rate at which Treasury bills would be purchased at the initiative of the market and adopted a preferential discount rate for paper secured by short-term government obligations. Quantitative controls were abandoned except to the extent that various policies were pursued to encourage investment in government securities by non-bank investors and the discouragement of such investments by banks, particularly in so far as long-term securities were concerned. The concern about long-term securities in itself indicates that considerations other than the mere quantity of bank credit entered into the policy.

10. This overall expansive policy resulting from the necessary support of the government security market was accompanied by attempts at restraint on a selective basis. Selective instruments of credit regulations used during this period, and in the case of margin requirements since 1934, differed from the earlier approaches to selective regulations. The difference was primarily in that the selection had no reference to the use of Federal Reserve credit. It was not erected on the shaky foundation of an imaginary relationship between the nature of collateral and the use to which credit was put, nor on the theory that the aggregate of bank credit could be controlled by regulation of the behavior of individual member banks. Both in the case of margin requirements and consumer credit regulations the attempt was to reach market transactions directly. The regulations, moreover, were not limited to transactions by banks but included, at least theoretically, all transactions of a specified character. In the case of security loans the impact was primarily on brokers and in the case of consumer credit on distributors. It was possible to adopt these restraints without interfering with war finance because the regulations resulted in diminishing the demand for credit by limiting the borrowing capacity of a prospective purchaser of goods or securities. It did not, as do general regulations, depend for the limitation of demand on increasing the cost of credit.

### *Margin Requirements*

Authority for the Federal Reserve Board to impose margin requirements on loans secured by listed stocks made by brokers and dealers, by banks and by others was a part of the Securities Exchange act of 1934. This act, as well as the Banking act of 1933, represented the legislative reaction to the speculative excesses of the late 1920's and the subsequent crash in the stock market. For the most part the act is intended to protect the investor against unfair practices in the marketing of securities. The section dealing with margin requirements, however, is only indirectly concerned with such practices. Its stated purpose is to prevent the excessive use of credit in buying or carrying securities. But since the section dealing with margin requirements is a part of a law which has a different objective it was feasible, without glaring inconsistency, to exempt large groups of transactions. For example, in the case of banks it does not apply to bonds or to unregistered securities, notwithstanding the fact that a credit expansion could be based on such loans as well as loans on listed stocks. There is evidence in this legislation as well as in other features of the banking laws which have been discussed before of the idea that the nature of the collateral somehow protects the economy. It must, in fact, be admitted that large speculative expansion on the stock exchange is not likely to be based on securities, the market price of which is not subject to wide fluctuations, and that the limitation of the amount of credit that can be extended on registered securities is likely to cover the main field in which excessive expansion for speculative purposes usually occurs.

As already pointed out, the formula laid down in the law makes no reference to the volume of credit and is based entirely on the behavior or prices of securities. The formula was in effect (with one advance in the maximum rate) from the time in October, 1934 when the regulation became effective until April 1, 1936 when a flat 55 per cent was substituted. In the autumn of 1937 the rate was reduced to 40 per cent and remained at that level for about seven years until February 4, 1945, when it was raised to 50 per cent. On July 5, 1945 it was raised to 75 per cent and on January 20, 1946 to 100 per cent where it remained until February 1, 1947, when it was once again reduced to 75 per cent.

There is no conclusive evidence of the extent of the influence of these changes of margin requirements on the volume of credit used in the market nor on the behavior of security prices. It could hardly be expected that this relationship would be apparent at a glance (see Chart I). Throughout the period the amount of customers' debit balances has been relatively small, which must be ascribed to the existence of a large amount of cash and to the absence of an active speculative bull market

more than to the establishment of margin requirements. During the continuous rise in the stock market from the early part of 1942 to the second and third quarter of 1946, borrowings on stock exchange collateral increased substantially. In 1945, however, while stock prices continued to rise, street loans declined and this decline became more rapid after the 100 per cent requirement was established.

The recent reduction of the requirement to 75 per cent was motivated


CHART I

by the fact that inflation had largely run its course[2] and that the law did not authorize the use of margin requirements for the purpose of permanently prohibiting loans by brokers to customers. Such a prohibition was considered and voted down at the time the law was under consideration. On the basis of the amount of street loans or the movement or level of security prices the recent reduction in margin requirements was logical and justified. A strong argument can also be made for it on the ground that there is little excuse for using the maximum permissible restraint, on a selective basis, in the field in which there is the least evidence of unhealthy expansion. It is mainly the statement that inflation has largely run its course, with its implication that action was justi-

[2] The entire sentence in the statement reads: "It now appears that inflation has largely run its course, assuming that fiscal, labor and management policies, such as I have indicated, are pursued." Statement by Chairman Eccles, *Federal Reserve Bulletin*, February, 1947, p. 150.

fied on general as well as on selective principles, that is open to question. Fundamentally conditions are still dominated by inflationary pressures. There is still an excessive supply of money and a shortage of goods, as well as the highest national income on record in time of peace. It could be argued now as a year ago, when margin requirements were raised, that any use of credit for helping finance the transfer of stocks from one group of owners to another was, in the circumstances, an excessive use of credit. Central bank action should be considered in its role as a signal as well as from the viewpoint of its immediate effects in a given field of credit. If it is to be so viewed, then it is clear that present conditions do not justify the issuance of a signal of relaxation. On the other hand, if action is taken on a strictly selective basis, then it should not be so implemented as to be susceptible of interpretation as an indication of a general attitude by the monetary authorities.

It is too early to say on the basis of experience to date that stock exchange speculation can be controlled through margin requirements. The record, however, is reasonably clear that the amount of speculation on credit can be reduced by this device. Wild-cat speculation on a shoestring which characterized 1929 certainly could never occur legitimately at a time when margin requirements were high, to say nothing of a period when the 100 per cent requirement practically ruled out stock exchange credit. Control over margins on security loans is, therefore, clearly a useful additional instrument of credit regulation in the hands of monetary authorities.

### *Consumer Credit*

Discussions of the possible effect of the rapid expansion of instalment purchases on the business cycle were not uncommon in the 1920's. It was recognized at that time that purchases in excess of current income through the use of instalment credit were likely to expand the demand for goods, and particularly for automobiles, in a period of relative prosperity and that the necessity of making payments on previous commitments would accentuate the decrease in current buying power in periods of recession. The effect of instalment buying on changes in the volume of demand would be more pronounced while the practice was expanding and would be less powerful when the secular trend ceased to be upward. While there were discussions of the subject as long as a quarter of a century ago, the matter was not subjected to careful study until much later.

In the 'thirties and 'forties a number of careful studies were made and the general conclusions previously reached by deductive reasoning were largely sustained by examination of the record. Professor Haberler, for example, in a study published in 1942, reached the conclusion that

"credit intensifies the cyclical swings in consumer expenditure and hence in economic activity, functioning like an amplifier or resonator." And in another place, "there can be no doubt that economic stability would be promoted if it were possible, without changing the long-run volume and trend of credit, to mitigate its cyclical fluctuations or, still better, to bring about an anti-cyclical pattern in credit—that is, if credit could be expanded in depressions and contracted in prosperity periods—so as to counteract the cyclical fluctuations in consumer expenditure and economic activity in general."

Nothing was done, however, in this field until the war emergency introduced a number of other considerations that made the regulation of consumer credit desirable. The impetus for introducing such regulations came from various sources. Some large manufacturing concerns were interested in restraining the public demand for their products at a time when they had to convert their plants to war uses. They believed that it would be easier to make the transition if public demand for their products declined rather than if the diminishing product was constantly being bid up in the market. The government was also interested in diminishing the demand for civilian goods which could no longer be supplied; but it was also interested in diminishing the creation of credit for civilian use in any field as a part of its general desire to protect the economy from inflation. There was also considerable support for the regulation of consumer credit arising from producers and dealers who wished to be protected from competition by over-eager concerns which were willing to take a chance on sales with small down payments and long periods of maturity. Some concerns were also favorable to the regulation as a good way to sidestep unreasonable demands by customers and in the case of charge accounts as a help to the collection of debts. Some elements of the public were also favorably disposed to discouragement of instalment buying on broad ethical or thrift grounds—one should not buy until one had saved the money to pay for the goods purchased.

There was, therefore, a fairly widespread favorable atmosphere for the introduction of consumer credit regulation which was undertaken by the Board of Governors under an executive order issued by the President on August 9, 1941. Regulations issued under the order listed a large number of commodities of a durable type that would be subject to regulation and prescribed minimum down payments and maximum maturities. In the spring of 1942 the regulation was extended to cover many semidurable goods. It was also made applicable to charge accounts and to instalment loans as well as limited single-payment loans by banks.

At the time that the regulation went into effect total consumer credit

was in excess of ten billion dollars, of which about two-thirds was instalment credit (see Chart II). The rapid decline in consumer credit from that level to less that five billions in early 1944 was due principally to the disappearance from the market of the goods that were most commonly sold on instalment as well as to the rapid growth of money income arising from financing the war. It is not possible to determine to what extent the decline was accelerated by the introduction of regulation.

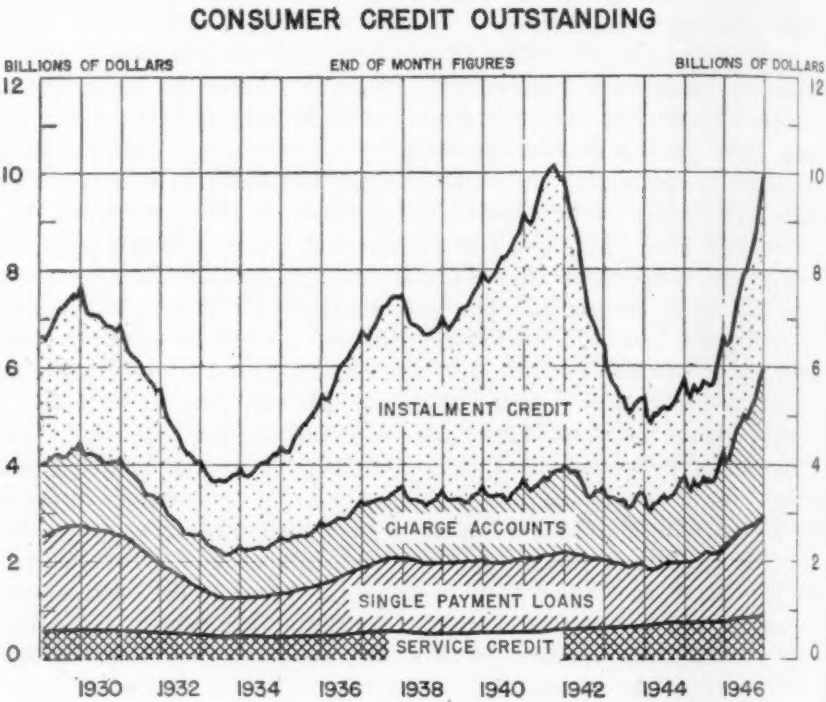


CHART II

After the end of the war total consumer credit began to advance once more and in recent months was approaching ten billion dollars. The rise was much larger in charge accounts than in instalment credit. In December of 1946 the Board modified the regulation, limiting its applicability in the instalment sales field to twelve, instead of thirty-six, groups of commodities and simplifying the procedure. This was not intended as a relaxation of the rules, but as an attempt to find a means of controlling the main volume of consumer credit in peacetime without too complex an organization and without too much interference with the operations of business.

The problem of whether consumer credit regulations should be made a permanent part of the equipment of Federal Reserve authorities is now under discussion. The Board of Governors in its 1945 Annual Report recommended its continuance under permanent law. It is clear that if it is so continued it will have to be on grounds of its anticyclical effects. The special considerations that prevailed during the war will not be compelling in the postwar period and it is not part of the duties of the federal government to protect dealers from eager competitors or to help department stores to collect their bills. The extent to which consumer credit regulation can help to flatten the business cycle is not established but that it would be a measure that could be used in the right direction can hardly be doubted.

Opposition to the extension of consumer credit regulation is in line with the widespread desire to diminish or do away with all wartime controls. It should be remembered in this connection that the question of regulation of consumer credit is not one that arose solely during the war and that general regulation of the growth of credit has been governmental policy for a long time. Another line of argument against the controls is that their effects are trivial and not worth the expenditure and interference with business practices. It is true that there is no way of telling to what extent the regulation would limit the expansion and contraction of consumer credit. The fact, however, that the expansion involved may be as much as five billion dollars or more makes it difficult to dismiss the matter as trivial.

There is also criticism of the regulation because it is complex and involves a great deal of machinery as well as because it reaches outside the banking field. The complexity of the regulation has been substantially reduced by recent simplifications. Extension beyond the banking field is shared by the regulation of security loans and may be considered as an element of strength because it influences the credit demand close to its source. There have been less substantial arguments against the regulation on the ground that it would induce persons to sell their savings bonds in order to buy automobiles or other durable consumer goods. On this point there is no evidence that this would be the effect, and from the point of view of credit administration it is not clear that it would make much difference. If a person were determined to buy an automobile, the volume of bank credit and the amount of money would be equally affected by borrowing for the purpose of buying a motor car as by selling a savings bond which presumably would result in the government having to borrow that much more from banks.

There is another argument which is made against consumer credit regulation which has considerable political weight. It is said that it discriminates against the poor man and particularly the veteran who

has not had an opportunity to save money and who therefore would have to go without the automobile or the washing machine, while the man who was making big wages in war industry would have the savings necessary for the down payment. It may be questioned, however, whether the discharged veteran is not as likely to have the down payment as anyone else. The argument furthermore applies in general to the whole economic system under which a person who has money can gratify more of his wants than one who has not. It is doubtful whether the general equity of the distribution of desirable commodities would be improved by the elimination of consumer credit regulation. If it will contribute to the prevention of inflation, that is, a rise in prices, consumer credit regulation will be more in the interest of persons with limited means than of the well-to-do.

It would seem, therefore, that a well-organized and carefully administered regulation of consumer credit would be a useful additional weapon in the hands of the monetary authorities and would contribute to their ability to moderate the ups and downs of the business cycle.

*Possibility of Extending Selective Credit Regulation*

It may be possible, and desirable, in fact, to consider extending selective regulation of credit to fields other than security and consumer loans. A sector of credit that is particularly well adapted to selective control is real estate and construction credit. The National Housing act gives the government considerable authority in determining down payments, valuations, and maturities on insured home mortgages. This law was intended to protect mortgage holders and to encourage building activity during the depression. It also aimed at reorganization of the mortgage market on a permanent basis. Owing to the conditions during which the law came into operation, and the resulting emphasis on expansion of activity, this machinery has not been generally used with reference to regulating housing loans with a view to counteracting cyclical developments. Early in 1938, however, when a business reaction was in progress, down payments on low-priced houses were reduced and maturities lengthened with the result that building activity turned up earlier than other sectors of the economy.

It may be that it would be wise to do in this field what was done in the securities field where regulation of credit was separated from the administrative machinery of supervision of the stock market and investment procedure and placed in the hand of Federal Reserve authorities.

Real estate loans other than for housing are now subject to a great deal of regulation in the National Banking act and in other laws. It may be that anticyclical use of these regulations is also feasible and such use would expand substantially the incidence and effectiveness of credit

regulation. It is clear in any case that close coordination of policies pursued by all agencies granting or controlling credit extension would contribute to the ability of monetary authorities to diminish the swings of the business cycle.

### *Coordination of Credit Policy Instruments*

The present is a particularly opportune time for developing techniques of selective regulation and their possible extension to other fields of credit because of the difficulty in the way of using traditional methods of credit regulation which in the final analysis rest on changes in the interest rate.

When we speak of controlling the supply, cost and availability of money, we make a distinction between these three elements which is useful in many connections. But ultimately they find expression in the cost of money, that is, in the interest rate. It is for this reason that the use of orthodox techniques is greatly complicated by the growth and distribution of the public debt. There is general recognition of the significance of the growth and magnitude of the debt and the character of its ownership. Its growth as measured by official statistics has been from less than fifty billions in 1940 to two hundred and sixty billions at the present time.

It would be fruitless at this time to discuss how much more of the cost of the war could have been raised by taxation or what methods could have been followed to place a larger proportion of the debt among investors other than banks. The facts, briefly stated, are that of the present volume of debt a hundred billion is owned by commercial and Federal Reserve banks, twenty-five billions by insurance companies, eleven billions by mutual savings banks and the remainder by individuals, nonfinancial corporations and public bodies.

The existence of this volume of debt issued at a rate not exceeding two and one-half per cent for the longest maturities (except relatively small amounts of prewar bonds) makes it practically certain that the long-term interest rate will not be permitted to rise. Official statements support this view. Not only would such a rise increase the cost of borrowing to the government at the time of refunding but it would make inroads on the capital value of securities acquired by institutions and individuals in support of the war effort. The government is determined not to repeat the experience after the first World War when government securities went down to the 80's. One reason, among others, for this determination is in the size of the debt and its dominant position in the country's financial structure.

Since the long-term rate is, therefore, anchored at $2\frac{1}{2}$ per cent, the field of general credit regulation through the interest rate is limited to

such changes in shorter-term rates as can occur without affecting the long-term rate. This limitation on rate policy, however, leaves a considerable field in which action is possible. Past experience demonstrates that the existing spread between short and long-term rates is not a normal condition; it is the freezing of a relationship which developed during a period of large gold imports and extreme monetary ease, on the one hand, and a low level of activity and a reluctance to make long-term commitments in view of the uncertainty of the business outlook, on the other. Over the years short-term rates have been above long-term rates more frequently than below them. There is, therefore, considerable room for credit policy action on the short-term rate even though the long-term rate remain fixed. A narrowing of the spread between the rates would result in diminishing the incentive for banks to sell short securities to the Federal Reserve and thereby acquire reserves which would be the basis of purchases of a multiple amount of bonds.

Bank holdings of short-term securities have diminished rapidly during the past year. Bill holdings have been almost eliminated; holdings of notes have gone down substantially and those of certificates have been cut in two, while holdings of bonds have increased. At the Federal Reserve banks, on the other hand, holdings of bills have increased to sixteen billion and holdings of certificates are at seven billion, while bonds and notes are less than one billion.

Some flexibility in the rate at which Federal Reserve banks would buy 7/8 per cent certificates would be helpful. The 3/8 per cent three-month bill has ceased to be a market instrument, and can be disregarded. Developments during the past year have made the situation somewhat different from what it was twelve months ago because bank credit has been contracting as a result of liquidation of short-term securities through the use by the Treasury of its balances accumulated during the last war-loan drive. On the other hand, bank loans to business have increased substantially and prospects are that they will continue to increase at an even higher rate as business will require funds for larger inventories and for working capital. Large holdings of liquid assets by the public do not prevent numerous businesses and individuals from requiring additional funds as business expands. For the immediate future, therefore, a policy of moderate credit restriction appears to be indicated as a means of preventing the already excessive supply of money from growing still farther beyond the available volume of goods.

In order to be freer to carry out such restriction it is desirable to so manage the public debt as to protect a considerable portion of it from the impact of changes in market rates for money. It is for this purpose that the Board of Governors has suggested the imposition on banks of a secondary reserve requirement to be held in cash or bills or certificates.

Such a move would help to free the hands of Federal Reserve authorities in pursuing a restraining credit policy. Another proposal by the Board would limit the amount of long-term paper that members may hold in relation to their demand deposits. Such a provision would restrict the expansion of bank credit through sales of short-term securities to the Federal Reserve and purchase of several times as many long-term bonds.

If these methods of insulating a significant part of the public debt were put into operation, then it would be desirable to increase the Board's power over reserve requirements. They are now at the maximum permitted by law, except in New York and Chicago where they may be raised from 20 per cent to 26 per cent. If the Board is to be given such additional power over reserve requirements, it would be desirable to give it authority to impose higher requirements on additions to deposits as distinct from existing deposits. This device would eliminate the *ex post facto* character of a straight increase of overall requirements and would confine the effects of the action to operations undertaken by the bank after the new requirement will have gone into effect. This would make it much easier for the Board to take action because it would eliminate the question of unmerited hardship that might result to individual banks from an overall increase in requirements applicable to all deposits.

If this adaptation of the machinery for credit control to conditions prevailing after the war were put into effect, it is believed that Federal Reserve authorities could exercise a substantial degree of influence over the growth of credit. There appears to be a tendency to consider action at this time unnecessary because during the past year there has been a decrease in bank assets. This attitude, however, may be dangerous. Liquidation of bank holdings of government securities by the use of superfluous Treasury balances obscures the fact that there has been a rapid growth in commercial and real estate loans as well as in demand deposits. Current changes must also be viewed with reference to the extraordinary volume of money owned by the public—which holds a continuous inflationary threat. It is possible that these funds will be held immobile for years until the economy grows up to them. But it would not be safe or wise to run the risk of encountering the effects of an increased use of the existing money supply or of its increase through liquidation of savings bonds or other securities—without being prepared to apply appropriate measures of restraint.

As has been stated, the great increase in the public debt is an important element in the situation which has to be taken into consideration in fashioning the machinery of credit control and in its administration. It is the presence of this new factor in the economy, rather than the supposed dominance of the Treasury over the Federal Reserve System, that marks the change in conditions and requires altered techniques for

handling monetary regulation. The technical powers of the Federal Reserve System for credit restraint are far greater than they have ever been because its portfolio of twenty-five billion dollars of government securities can be used to contract the credit base by an unprecedented amount. But the System must exercise this power with consideration of the possible effects on the holders of government securities and on the cost of government financing. If the necessary additional powers be given to the Federal Reserve System by Congress, then cooperation between the Treasury and Federal Reserve authorities for a common objective would enable the monetary authorities, even in the difficult domestic and world situation which exists today, to contribute to the maintenance of economic stability.

Re-
een
uri-
unt.
the
cost
n to
the
ould
and
ce of

# MONETARY MANAGEMENT AND CREDIT CONTROL

*By* Allan Sproul*

The subject of this paper is money management and credit control. Before I embark on a discussion of this subject, I should make two statements. The first statement is that while I must include observations on the management of the public debt, I cannot and do not speak for the Secretary of the Treasury. He speaks for himself. My second statement is that I cannot and do not speak for the Federal Reserve System. The Federal Reserve System as created by the Congress of the United States is, in fact, a federal system. There is the Board of Governors at Washington having broad powers of policy making, supervision, and co-ordination. There is the Federal Open Market Committee composed of the members of the Board of Governors and representatives of the Federal Reserve banks, which has specific authority over the open market operations of the banks. There are the twelve Federal Reserve banks and their boards of directors, which have been given certain statutory powers and which have certain powers of advice and counsel growing out of those statutory powers. This is a federal system; it is at one and the same time national and regional; some powers have been given to the central agency, some to the constituent parts, some to a combination of the two, and some have been reserved, as usual, to the people, including the Federal Advisory Council. I cannot speak for such a system; certainly not with regard to the future. I can try to interpret policy once it has been fixed by the appropriate body within the System but, if I go beyond that, I am merely giving my personal views. I can only speak as one individual who participates in the work of the System.

I have undertaken this discussion of money management and credit control with some hesitation. I am not unmindful of the fact that there was an election recently, and the voters seemed to express impatience with controls of various kinds which they had borne with varying degrees of resignation during the war. But money mangement or credit control is not a war baby; it is the product of many years of growth and development; at least since the establishment of the Federal Reserve

* The author is president of the Federal Reserve Bank of New York. The substance of the present paper was originally presented before the New Jersey State Bankers Association, December 6, 1946. A closely related discussion by Woodlief Thomas, director of the Division of Research and Statistics, Board of Governors of the Federal Reserve System, will be found in the *Proceedings* of the American Economic Association, *American Economic Review*, Vol. XXXVII, No. 2 (May, 1947).

System in 1914. It was made necessary by the key position which money and credit occupy in our democratic society and our capitalistic economy. And, by the same token, the powers of money management and credit control must be so limited and so administered as not to hamper that society; not to destroy that economy.

Our primary job is the overall credit administration of the country, and our objective must be to make credit policy serve the demands of sustained high production, high income, and high employment, while preserving public faith in our currency and our credit. We have long since learned, of course, that credit policy is not the sole determinant of economic health or sickness. The high hopes of a specific treatment of our economic ills, which concentrated on central bank operations in the 1920's, and which tended to center around fiscal policies in the 1930's, have been disappointed in the past, and, I believe, will be disappointed in the future. An integration of all of our various economic programs is necessary and then, if we are to avoid totalitarianism, or State capitalism, or State socialism, we have to relate these programs to the social habits and individual desires of millions of human beings without too detailed compulsions. It is an intricate, complicated, difficult task. It suggests that humility should be combined with hope if we, in the Federal Reserve System, are to play our part well.

I believe that over the past thirty years the Federal Reserve System has acquired the experience which should enable it to acquit itself decently. And I anchor that belief in the unique federal character of our System. It has been said, in the past, that the only way to insure the proper participation of the Federal Reserve System in any reordering of our financial affairs, is to deprive the System of all taint of private participation. The government, so the argument runs, would be willing to place full reliance in the System's existing powers, or to grant it new powers, only if every vestige of private participation in its management were removed. I know that this is what is happening to central banks in other countries, and that it appears to be a growing political philosophy abroad. But so far as we are concerned it seems to me to be a misreading of the longer-term future and a miscalculation of the policy which will best serve us now. Rather than seek powers by trying to make the Federal Reserve System just another government agency, we should be able to claim powers because we are a successful working example of government functioning in the economic field, with the aid and support of private business. Our experience in government-business cooperation —government having the dominant voice as it should have in the field of monetary and credit policy—may be a signpost along the way to solution of one of the major economic problems of the postwar years: the relation between government and business in our whole economy.

What are these powers I am talking about which the Federal Reserve System tries to exercise? In laymen's language, and we are all pretty much laymen in this field, they are the powers of "money management." That is a term which is likely to arouse the sensibilities of all those who deny any interference with what they call "natural economic laws." And "natural economic law" in this case usually is thought of, if only vaguely, in terms of restoration of an automatic gold standard, nationally and internationally.

Nationally, I make the assumption that the gold standard, in terms of a currency freely convertible into gold, has disappeared and is not likely to return. This I do, not because I am fearful of what might happen if we resumed specie payment, but because I fail to see the advantage of such resumption. There is no lack of faith in our currency or our credit without domestic gold convertibility, and the restraints of such convertibility are not needed to insure wise administration of our monetary affairs. In fact, if reimposed, they would not guarantee such wisdom. This has been amply demonstrated in the past. Restoration of gold circulation within the country would seem to me to be a step backward in the historical evolution of "money."

Internationally, the gold standard still persists and performs a useful function, but it is not automatic. And in so far as it ever was automatic, it was at a particular time and in a particular set of economic circumstances. Except in its earliest and most rudimentary form it was a gold standard applicable to the time and circumstance of England's 19th century position in the world. It rapidly became more of a sterling standard than a gold standard, and it flourished with London as the acknowledged financial center of the world, with Great Britain as the great exporter of capital and the great importer of raw materials, and with the rest of the trading world largely revolving about the center. In essence it was an adjustment between one economy and the rest of the world.

Quite early, and more clearly as it became necessary to cope with simultaneous efforts of many nations to adjust their economies during cyclical depressions, elements of management crept into the gold standard even while it was still referred to as and considered to be automatic. Central banks became more and more aware of their powers and responsibilities. They said that they were working on the lender of last resort theory, but this in itself interfered with the automatic working of the gold standard. And they went beyond this conception because events forced them to do so. Perhaps the most striking example of this transformation was the recognition, during the interwar period of the present century, that movements of capital might be perverse—that instead of redressing international balances they might accentuate

unbalance. This did not conform with gold standard theory, but the "hot money" of the years between the wars did not respond to theory; it responded to speculative urges and political fears.

Certainly since the end of the first World War we have had more and more management of money in the international sense, even though a return to the gold standard was one of the early goals of that period. The central banks of the world, under the leadership of the Bank of England and the Federal Reserve Bank of New York, were in the ascendant during the decade following that war, and they were the accepted instruments of money management internationally. They still had respect for the gold standard, but they thought it necessary and desirable to supplement its working. Sometimes they acted to alleviate seasonal strains, or temporary shortages of foreign exchange on the part of one or another of the countries of the world. Sometimes they acted to accelerate the effects of an inflow or an outflow of gold, which was relatively easy because of the multiplied effect of the fractional reserve system.

Obviously they failed to restore either the pre-1914 gold standard or international monetary stability. But we should not be too hasty in attributing that failure to men or to the semiprivate character of the institutions they served. They were pioneers, and gallant and courageous pioneers, in the development of common international economic policy through consultation and cooperation. They were the legitimate forerunners of world organizations such as the International Monetary Fund; and that institution, which is now beginning to function, will do well to profit by their experience. Their failures were not so much failures of men and institutions—they were failures resulting from the tendency we have to place too much emphasis on financial arrangements, not enough on underlying economic conditions and the individual problems of particular countries. A world organization run solely and directly by national governments will not solve the problem any better than did the semipublic central banks, if the problem itself is misconceived.

That is why the successful outcome of the negotiations on trade and economic arrangements which have recently been the subject of preparatory meetings in London, and which will be continued during the coming year, is so important, so essential, to the success of the international financial organisms already created. International monetary instability, and currency devaluations, and exchange controls have been, most often, the reflection of basic disturbances in a country's international position, or of international cyclical movements of wide amplitude. Statesmen and economists could condemn currency devaluation or exchange controls, as they condemned war, but these

phenomena still persisted. It doesn't do much good to tell a primary producing country, of small means, which has suffered two or three bad harvests, or which has had its exports drastically contracted because of depression in a major industrial country, that it must avoid exchange control or currency devaluation because that would not be "cricket"—would not be "gold standard."

It is true, of course, that there has also been a shift of emphasis in "money management" from the maintenance of international exchange stability to the maintenance of domestic economic stability. Monetary policies are coming to be less and less defined with reference to the state of the national gold reserves and the international balance of payments, and more and more in terms of domestic economic stability. It is the difficulty of reconciling domestic stability and prosperity with international balance which is the core of the exchange problem today—the one which the International Monetary Fund and the International Bank for Reconstruction and Development are setting out to help to solve. It means a considerable degree of management of money internationally. But it also requires a recognition of the fact that the problem, fundamentally, is not financial—it is a problem of production and trade, of costs and prices, and of the maintenance of a stable, growing economy in the principal countries of the world.

What we need to retain from the gold standard days, whether pure and automatic, or adulterated and only semiautomatic, is a realization that we cannot escape wholly from the disciplines which the international gold standard imposed on domestic action. Persistent unsound national policies in the fiscal and monetary field, persistent deficits in a country's current balance of payments, will end up in international instability no matter how much management you have. As in many other situations, the late English economist, John Maynard Keynes, has said it, has said it well, and has said it, perhaps, to the confusion of some of those young disciples, who followed but could not always correctly interpret the master; who have not been so agile of mind and so free to shift their position as he was. In his last essay which discussed the United States proposals for consideration by the International Conference on Trade and Employment, Lord Keynes said:

> . . . We have here sincere and thoroughgoing proposals, advanced on behalf of the United States, expressly directed towards creating a system which allows the classical medicine to do its work. It shows how much modernist stuff, gone wrong and turned sour and silly, is circulating in our system, also incongruously mixed, it seems, with age-old poisons, that we should have given so doubtful a welcome to this magnificent, objective approach which a few years ago we should have regarded as offering incredible promise of a better scheme of things.

I must not be misunderstood. I do not suppose that the classical medicine will work by itself or that we can depend on it. We need quicker and less painful aids of which exchange variation and overall import control are the most important. But in the long run these expedients will work better and we shall need them less, if the classical medicine is also at work. And if we reject the medicine from our systems altogether, we may just drift on from expedient to expedient and never get really fit again . . .

Nationally or domestically, I think most of us will agree that the question of "money management" was thoroughly studied and calmly decided by the review of our national experience, the examination of the experience of other countries, and the investigations of our existing banking and credit system which preceded the adoption of the Federal Reserve act in 1913. How successful we have been in the administration of the act, and of the various amendments which have been adopted, particularly the Banking acts of 1933 and 1935, may well be a matter of some difference of opinion. But I know of no serious body of opinion which seeks to abandon money management, as it has developed over the past thirty years. The Federal Reserve System has made a place for itself, as a part of our banking and credit machinery, and has fortified its position by performing services which could not have been otherwise rendered during two struggles for our national existence.

The principal new problem which now faces us in the successful management of money grows out of our participation in World War II. It has been created by the tremendous increase in the size of the federal debt and by the extent to which public debt obligations have become a part of our banking and institutional assets. On the one side this has emphasized the relative importance of fiscal policy and debt management, as contrasted with monetary policy, as a means of economic control, and on the other side it has greatly reduced the area in which monetary policy is free to work or can work effectively.

The cost and the availability of credit were the twin weapons of domestic money management as practiced by central banks. In my opinion, substantial changes in interest rates, affecting all maturities, such as were formerly employed for purposes of monetary control, are now impractical. I deem them impractical because of their effect on the prices of public debt obligations, and therefore on all those holding such obligations, and their effect on the cost of public debt service. At the same time control over the availability of credit has been substantially relinquished, for the time being, by obligations or responsibilities which have been assumed in support of the government security market.

At the beginning of the recent World War it was decided that our expenditures for war purposes should be financed at stable, not rising, rates of interest such as the pressing needs of previous wars had pro-

duced. To make this decision effective, a pattern of rates for government securities was established, with Federal Reserve support. The almost inevitable consequence of the fixing of this pattern, which meant supplying the commercial banks with whatever funds were necessary to maintain the pattern, was pretty constant pressure on the longer-term rates. Actually, therefore, the war was financed not at stable rates of interest, but at declining rates. We came out of the war with short-term rates still pegged where they were when we went in, but with the longer-term rates under steady downward pressure. So long as differences in maturity, and the risks which longer maturities are supposed to involve are deprived of their significance, the tendency of interest rates is to come together at one figure for all maturities. If the short end of the rate curve is fixed, that means that the long end will tend to decline. So much for loss of control over the cost of credit.

Similarly with the control of the availability of credit. In its simplest terms, our support of the government security market has meant and still means that the commerical banks, in large part, have the initiative in determining whether or not reserve bank credit is to be created or extinguished. If the commercial banks sell government securities and the market will not absorb them at somewhere near the going prices, we are the residual buyers. If the commercial banks have surplus funds, and government securities of the kinds they want are not available in the market, at least without a substantial run-up of prices, we are the ultimate sellers. In either case we are not the masters in our own house.

One way out of the dilemma, the loss of control over the cost and availability of credit, would be to transfer our interest and our affections from quantitative credit controls to qualitative credit controls. We have two such now, the control of credit used in the stock market and the control of consumer credit. Our experience with these controls has not been altogether happy, but it is my opinion that they are worth continuing, that we need them, at least until something better has been devised. Our economy is peculiarly susceptible to the influence of wide swings in the use of credit in the stock market and in the mass distribution of consumers' durable goods. These swings have tended to accentuate our booms and our depressions, and in so far as they can be moderated by credit controls, it is a contribution to stability. The administration of these controls is possible without interfering too greatly with that independence of decision which will permit individuals and business enterprises to adapt their practices to the needs of a dynamic expanding economy. When you think of extending such controls into other fields, however—and this would be necessary if qualitative controls are entirely to supplant quantitative controls—you find yourself wandering perilously far from the kind of private enterprise economy

we are trying to preserve. I think we must still try to see what we can do with quantitative controls.

In current thinking the quantitative approach has had at least two expressions. The Board of Governors of the Federal Reserve System in its 1945 annual report to the Congress suggested that the present powers of the Federal Reserve System, granted in very different circumstances, are inadequate to deal with present or possible future situations, and that we shall have to have new powers if we are to be held responsible for credit control—for "money management." The Board suggested that consideration might be given (1) to requiring banks to maintain a secondary reserve in the form of Treasury bills and certificates of indebtedness, which would be superimposed on our present cash reserve system, (2) to the control of long-term security investments of commercial banks, and (3) to an increased authority to change cash or primary reserve requirements of banks. I am not going to try to explain, analyze or discuss these proposals. Their discussion could form the content of one or more separate papers. I can only say that I think they have little relevance as far as meeting present problems is concerned. I do not believe we can expect Congressional consideration of and action upon such fundamental changes in our banking system in the near term future.

It has seemed profitable to me, therefore, to concentrate on what we might do with our present powers and our present skill, combining our resources of power and skill with those which the Treasury uses in managing the public debt. Money management and debt management, as distinguished from fiscal policy which depends largely on Congressional action, are today's Siamese twins of effective and usable power and influence in the hands of those who have executive authority and responsibility. I think that it is possible to do something with them as they stand. What we do need not be spectacular nor drastic. It has not been sufficiently recognized, perhaps, that the very size of the public debt and of the bank holdings of the public debt have made the money market much more sensitive to relatively modest action than was formerly the case. The fact is, of course, that we have been using the modest approach in debt and money management—elimination of the preferential discount rate, retirement of government debt out of Treasury balances, increases in acceptance buying rates—and that so far this approach has been measurably effective in the economic situation in which it has been used. Aggressive bank bidding for longer-term government bonds has been diminished, at least temporarily, the pressure on longer-term rates of interest has been reduced, the banks have been in intermittent need of reserve funds, and some short-term rates of interest have risen slightly.

It is true that this is weak medicine in terms of combating inflation. It has done little to reduce the volume of funds already created and in the hands of the public, and nothing to increase the supply of goods and services available to the public. I have heard of no practical program of credit control which would accomplish these purposes. So far as inflation is concerned, ours is essentially a holding operation.

There is only one final and compelling and satisfying answer to the present lack of balance between the supply of goods and services and the supply of money, and to the present danger of our climbing another loop in the cost-price spiral. That is an increased supply of goods and services growing out of increased production per man hour—out of increased efficiency of men and machines. That is the only way we can validate the increases in costs which have already taken place in our economic structure. That is the only way we can prevent a further increase in prices, or bring about a decline in prices, without the hardship and suffering of depression and unemployment. Responsible management must know that this is the problem; that putting into effect a price increase to meet every wage increase is no real solution. Responsible labor must recognize that its own interests, as well as the interests of the whole community—our standard of living—are bound up in the same package with output per man hour. Recognition must lead to action, however, or little will be accomplished. And action will require consideration of our incentives to investment and to work, and of the penalties for slackness in production, whether of management or labor. Without adequate incentives for superior performance and without observable penalties for inferior performance, it is flying in the face of human experience to expect increased production per man hour.

Unfortunately, the whole world will be affected if we ride the roller coaster of boom and bust. We shall not be the only ones to suffer for our sins. America's national income represents perhaps two-fifths of the world's total income. It is certainly the most dynamic and significant factor in the world economy. If we exhibit a lack of responsibility in our domestic economic affairs, we shall betray a world which is looking to us for leadership, and which depends on us, in large part, for its own stability. Those who are concerned with the direction of American business and American labor need to ponder this, not only because of its economic implications but because of its international political implications. If we are to lead the world toward enduring peace, we cannot afford to dissipate our influence and weaken our world neighbors by economic irresponsibility. No one who lives, as we all do, in the shadow of the atomic bomb, should forget that fact for one instant.

This partial digression should make clear, I think, that I attribute to money management only a very secondary role in meeting the major

problems of today. It is important, however, that it be free to work in the right direction. That is the significance of what might be called the next step in the modest approach to restoring credit control—breaking out of the strait jacket of the pattern of rates, in which we voluntarily allowed ourselves to be tied and fastened during the war. By that I mean specifically, the defrosting of the presently frozen short-term rates on government securities. I do not suggest this as an urgent matter of the moment; other actions and other factors have given us and are giving us time to consider the problem. And I recognize that the benefits of such a move are not certain; there are few certainties in credit administration. But it seems to me that if we are again to have a credit policy worthy of the name, and if we are to be able to support and supplement a constructive policy of debt management, we must sooner or later get out of the strait jacket of the pattern of rates. We cannot indefinitely leave with 14,000 commercial banks the determination of how much Federal Reserve credit will be used; how much further the money supply may be expanded. And it makes little difference, in terms of the money supply, whether the action of the banks is motivated by a desire to shift from short- to long-term government securities, as was the case early this year, or whether it represents a shift from government securities to private credits, as has been the case more recently.

I do not mean, of course, that so long as anything like the present situation exists, we should abandon the short-term market to its own devices. And I do not mean that we should relax our controls so far as to breach the 2½ per cent rate on long-term government securities. The former is not necessary and the latter is not desirable. But it is necessary and it is desirable that we regain a position in which we shall be able to apply the brakes to credit expansion when inflation threatens, even if we can only apply them ever so gently. That is why we should look forward to restoring some flexibility to the interest rate structure. It can be argued that flexibility of interest rates in a supported market merely means changing the peg. But surely there is a vast difference between supporting a market at your own discretion, at rates which can move up or down, and supporting a market at fixed rates which you have announced in advance your determination to maintain. In the former case, all the advantages of initiative and uncertainty will be working to make policy effective. In the latter case, betting against the house is a sure thing. If it is not known in advance exactly what we are going to do, we may well find that very little pressure will have sizable and beneficial results. If reserve funds can be made a little less readily available, and the certainty as to their future availability in any amount at a fixed price, can be removed, banks as lenders may be deterred from inflationary lending, such as lending to finance excessive inventory

accumulation or consumer spending. And banks as investors may be deterred from reaching out for the longer-term bank eligible bonds if the safety of premiums is no longer guaranteed.

Nor should there be any reason for Treasury concern, if short-term rates are unfrozen. The Treasury would still be able to sell its short-term securities for refunding purposes just as it does now. Banks and other investors would hardly prefer to hold idle funds, from month to month, in anticipation of a minor change in rates which might not be forthcoming. The market for intermediate securities would be subject to greater uncertainty and therefore less attractive, especially to banks, but the Treasury's long-term market need not be affected. Historically, there is no fixed relationship between long and short rates, and certainly so long as the Federal Reserve System gives its support, the long-term rate can be kept where it is. Downward pressure on the long rate would be relieved, but upward pressure, if it developed, could be successfully resisted. Finally, the cost of servicing the debt need not be increased by a rise in the shortest term rates. It has been estimated that the annual interest charge on the $65 billion of marketable government securities maturing or callable before the end of 1950, excluding bills, is about $1 billion, or 1½ per cent. If all of these securities were refunded with an average rate less than 1½ per cent, there would be a reduction in the annual service cost. Inasmuch as the major part of these short securities is held by the banks, or will be when they mature, this is not an impossible program! Refundings of government securities within the banking system could well be made with shorter maturities and at lower rates than during the war—we do not need to finance through the banks with 2 per cent bonds.

Such a program, of course, would seem to be the reverse of funding some of the debt but, in present circumstances, the only funding of debt which has real meaning is the sale of securities to non-bank investors, and retirement of bank-held debt with the proceeds. That could still be accomplished, so long as it is economically desirable, by stepping up sales of savings bonds faster and further, and by sales of long-term 2½ per cent bonds—with rollover removed—to institutional investors. This is the kind of debt management which really increases the cost of servicing the debt, but what you get is worth what you pay for it.

Such a modest approach to money management would have to lean on and to support a complementary program of debt management, just as it has in the recent past. Since early this year the Treasury policy of using surplus balances to retire outstanding debt, held largely by the Federal Reserve banks and the commercial banks, has subjected the reserve position of member banks to moderate pressure at frequent intervals. This has been the result of Treasury withdrawals of funds

from its war loan account at the banks, to redeem securities maturing in the portfolios of the Federal Reserve banks. Reserve funds were temporarily taken out of the market and this limited, to some extent, the ability or the inclination of banks to expand their loans and investments, at least in the fringe areas of credit. The program also directly disposed of $23 billion of Treasury deposits which, if spent for other purposes, would have increased by that amount the already large supply of money in the hands of the public.

This phase of the debt retirement program will come to an end this month. With the redemption of $3,261 million of Treasury notes maturing on December 15, Treasury balances in war loan account growing out of the tremendous sale of government securities in the Victory Loan Drive a year ago will have been largely eliminated. Hereafter, reduction in the total federal debt will depend primarily upon an excess of current income over cash disbursements. While the effect of debt retirement thus far has been mildly anti-inflationary, further redemptions of bank-held securities, if financed by an excess of tax receipts over government disbursements, will be actively deflationary. Money will be taken from individuals and corporations and used to extinguish bank credit, thus reversing the wartime process of credit creation.

A simila r effect can be obtained by net sales of government securities to non-bank investors, the proceeds being used to pay off bank-held debt. Such shifts of securities from bank to non-bank investors would also extinguish bank credit, and in addition would provide an outlet for accumulations of funds which otherwise would have to seek employment elsewhere, quite possibly with inflationary effects. So long as inflation, or the threat of inflation, is our adversary, this aspect of increased sales of savings bonds to individuals, and possible sales of long-term restricted bonds to institutional investors, should not be overlooked. If we should enter a deflationary period, of course, a reversal of these public debt operations would probably be appropriate and quite readily attainable. Debt management as well as Federal Reserve policy must be responsive to changing economic conditions.

Right now, faced with a possible resurgence of labor troubles, we can do no more than stand fast. Nevertheless, problems of money management and debt management should have our consideration as we enter a new phase in our financial affairs. I have outlined a modest approach to the restoration of credit control. There is opposition to, disbelief in, and timidity with respect to this modest approach, but it seems to me it may be the best approach available to us in the circumstances in which we find ourselves. For the longer term we may need new methods or new powers. I am only concerned that we do not get into the habit of seeking "just one more power" until we have powers beyond our wisdom and our skills.

# QUANTITATIVE AND EXCHANGE RESTRICTIONS UNDER THE ITO CHARTER

*By* RAYMOND F. MIKESELL*

Few students taking a realistic view of the future foresee a return to the unregimented international economy of the nineteenth century or even to the brief and rather precarious era of relatively free international dealings of the 1920's. The foreign economic program which the United States is actively sponsoring seeks to establish common rules of fair dealing which will achieve the maximum benefits from international trade in a world of widely differing economic and political systems. This program does not represent a return to the international exchange and trading practices of the past, however congenial such a program might be to the special interests and policies of the United States. Rather it seeks to reconcile the principle of multilateral trade with the trend toward nationalization of production and commerce in the world today. This program is embodied in the International Monetary Fund and in the proposed Charter for an International Trade Organization.

Exchange controls have been used in the past both as a means of controlling the balance of payments and for the protection of particular industries. Import quotas have likewise been employed for both purposes. In fact, a comprehensive exchange control system is generally combined with a system of import licensing, and the two methods of controlling trade are often indistinguishable in practice. Even tariffs, export subsidies and other instruments of commercial policy may be employed for balance-of-payments purposes as well as for influencing trade in a particular direction. It is significant, therefore, that the proposed Charter for an International Trade Organization provides for close cooperation between the Monetary Fund and the ITO. Under the terms of the proposed ITO Charter all matters involving the balance of payments of members are to be the subject of consultation with the Fund even though the practice in question falls under the category of trade restrictions rather than exchange restrictions. Whether or not the special functions of the two international economic institutions should have been performed by a single institution is a matter which only administrative experience can decide. There are undoubtedly advantages to be gained by having separate institutions as well as by a unification

* The author is associate professor of economics in the James Wilson School of Economics, University of Virginia.

of their functions under one organization. Provided there is a close co-operation between the two institutions, however, it will make little difference in the long run since it is expected that they will have a common membership.

The basic elements of the ITO Charter were first published by the Department of State in December, 1945 in a document entitled *Proposals for Expansion of World Trade and Employment.* These proposals were transmitted to other governments as a means of implementing the trade provisions of the Atlantic Charter and of Article VII of the Mutual Aid Agreements between the United States and her allies during the war. The development of an international trade organization was also anticipated by the recommendation of the Bretton Woods Conference that the nations represented seek to reach an agreement for the removal of "obstacles to international trade, to bring about the orderly marketing of stable commodities and for dealing with other economic problems arising out of the war."[1] The *Proposals* as published in December, 1945 were agreed to in principle by the British government at the close of the negotiations on the Anglo-American Financial Agreement. Since many of the provisions of the *Proposals* regarding the use of quantitative trade restrictions were parallel to those agreed to by the United Kingdom under the terms of the Anglo-American Financial Agreement, the the British government has given the proposals a large measure of support. This is understandable in the light of the fact that it is to Britain's interest to bring the practices of other countries under the same regulations to which the British have already obligated themselves. In September, 1946 the U. S. Department of State published an elaboration of the earlier proposals under the title of a *Suggested Charter for an International Trade Organization of the United Nations.* This *Suggested Charter* was submitted to the Preparatory Committee of the International Trade and Employment Conference which met in London during October and November of 1946.[2] The *Suggested Charter* served as a basis for discussion and as a working draft for the Preparatory Committee and agreement was reached on about 85 per cent of the articles in the *Suggested Charter*. In December, 1946 the Department of State prepared a redraft of the proposals entitled *Preliminary Copy of Redraft for an International Trade Organization.* This redraft (hereafter called the *Redrafted Charter*), includes those provisions of the *Suggested Charter* on which no final action was taken at the London Conference, as well as

[1] *Final Act, United Nations Monetary and Financial Conference,* Department of State, 1944.

[2] The meeting of the Preparatory Committee of the International Trade and Employment Conference was called by the Economic and Social Council of the United Nations. A second meeting of the Preparatory Committee was held in April, 1947. When the Preparatory Committee has completed its work, it is expected that the Economic and Social Council will call a conference of the United Nations for submission of the completed draft of the ITO Charter.

those provisions on which agreement was reached and included in the report of Preparatory Committee.[3] The *Redrafted Charter* includes provisions dealing with tariffs, quantitative restrictions and exchange controls, subsidies, state trading, cartels, intergovernmental commodity agreements, employment policies, economic development, and general commercial practices affecting international trade. It will be the purpose of this article to discuss those provisions of the *Redrafted Charter* which are especially concerned with the balance of payments and the establishment of the principles of multilateral trade. The principal provisions of this sort are those relating to full employment, quantitative trade controls, exchange restrictions, and state trading practices.

### *The Employment Provisions*

A basic issue involved in the acceptance of a multilateral trading program by a majority of the nations of the world has been whether or not the United States can be counted on to avoid a major industrial depression of 1929-33 dimensions. Nearly all economists the world over will readily admit that an ideal multilateral world economy will provide greater benefits to all countries than one in which trade is organized along bilateral lines or where the area of multilateral trade is confined within small groups or economic blocs. The chief argument for bilateralism and the compartmentalization of trade is that they are better than trying to operate in accordance with multilateral rules in an unbalanced world, or under a multilateral system which is always threatening to break down. Hence it is argued that countries following full-employment policies cannot afford to accept the obligations of a multilateral system unless the major trading countries of the world give adequate guarantees that they will maintain domestic full employment or agree that their imports will not fall below a certain level. Accordingly, therefore, some of the countries represented on the Preparatory Committee sought to include a provision whereby creditor countries would agree to utilize any excess of current receipts arising out of current international transactions, for foreign investment, stock piling, or other purposes. Such a provision would place the entire responsibility for the maintenance of international equilibrium on the creditor nations and was therefore unacceptable to the United States. Moreover, it is obviously impossible to make the maintenance of full employment a definite international responsibility for a country such as the United States whose Congress has not yet been willing to recognize full employment as an obligation of the government to its own people.

The provision adopted by the Preparatory Committee goes about as

[3] See *Report of the First Session of the Preparatory Committee of the United Nations Conference on Trade and Employment*, London, October, 1946.

far in the direction of making full employment an international obligation as it is possible to go. Article 4 of the *Redrafted Charter*, which is similar to the corresponding provision in the *Suggested Charter*, states as follows: "Members shall take action designed to achieve and maintain full and productive employment and high and stable levels of effective demand within their own jurisdictions through measures appropriate to their political and economic institutions and compatible with the other purposes of the Organization."

A new article was included in the *Redrafted Charter* which helps to meet the contention of those nations who fear the consequences of a depression in a major trading country. Article 8 is as follows: "The Organization shall have regard, in the exercise of its functions as defined in the other Articles of this Charter to the need of Members to take action within the provisions of the Charter to safeguard their economies against deflationary pressure in the event of a serious or abrupt decline in the effective demand of other countries."

Article 8 makes no substantive addition to the functions of the Organization with respect to trade restrictions. However, emphasis is given to the fact that balance-of-payments difficulties are frequently traceable to depressions abroad. A similar safeguard is to be found in the scarce currency provisions of the International Monetary Fund Agreement. Although there appear to be ample provisions in both the Fund Agreement and the *Redrafted Charter* enabling countries experiencing balance-of-payments deficits resulting from sudden reductions in external demand to safeguard their balance of payments, such safeguards are by no means capable of affording complete protection to countries following full-employment policies.[4] Economies operating at high levels of production and employment are geared to a particular level of imports and exports.[5] Even though it is possible for a country which experiences a sharp decline in foreign demand to maintain employment by compensatory spending and to adjust its balance-of-payments deficit by means of import and exchange controls, it may nevertheless suffer a decline in real income. It takes time to develop new markets for exports and new sources of supply for imports. The major problem of the full-employment country is not simply the adjustment of its balance of payments, but finding adequate substitutes for essential imports. Thus, in the event the dollar is declared to be a scarce currency by the Fund, the countries likely to suffer most will be those countries which are highly dependent upon the dollar area for essential imports.[6]

[4] See my "U. S. International Financial Policy," *Canadian Jour. Econ. and Pol. Sci.* (Aug., 1946), pp. 313–21.

[5] See M. Kalecki, "Multilateralism and Full Employment," *Canadian Jour. Econ. and Pol. Sci.* (Aug., 1946), pp. 322–27.

[6] When the Fund declares a currency to be scarce and permits other members to discriminate

Admitting the risks inherent in a multilateral system, it is by no means certain that these dangers can be overcome through bilateralism or by the formation of economic blocs. One weakness of the position of the European apologists for bilateralism lies in their failure to show how a small group of nations outside the Western Hemisphere can render themselves economically independent of the rest of the world without a serious decrease in real income.[7] Neither the sterling area nor the nations comprising the Russian bloc is self-contained. The problem is further complicated by the fact that most nations are looking to the United States and Canada for loans urgently needed for the reconstruction of their economies, and the servicing of these loans requires the restoration of a multilateral trading system.

There is also a tendency among the critics of multilateralism to overestimate the stability of trade under bilateralism. Different rates of economic expansion among countries tend to throw trade under clearing and payments agreements out of gear, thereby necessitating sharp reductions in exports. Moreover, bilateral agreements are negotiated by governments whose decisions are influenced by a variety of political and economic motives. Under these conditions major shifts in trade relations can take place even more rapidly than under conditions of free trade conducted in accordance with purely commercial considerations. Although multilateralism may be on the defensive because of its unsatisfactory performance in the past, the experience of nations operating under bilateralism during the 1930's is not entirely salutary.[8] It is not proper to compare multilateralism at its worst with bilateralism under ideal conditions. Bilateralism or other forms of trade compartmentalization are only justifiable in the event that the system of international payments has broken down or its functioning has been seriously impaired. The program represented by the Fund and the ITO Charter

---

against the trade of the scarce-currency country, it is assumed that trade will be redirected away from the scarce-currency country. Members having an unfavorable balance with the scarce-currency country will no longer be able to convert the proceeds of their favorable balances with third countries into the scarce currency. But those members who are dependent on imports from the scarce-currency country (or on imports from countries demanding payment in the scarce currency) may be unable in the short run at least to obtain adequate supplies of essential imports from other sources or may be able to obtain them only at greatly increased costs.

[7] Mr. Frederic Benham points out that international trade has the same effect as technical progress in raising standards of living. Hence placing barriers on trade in order to promote full employment is akin to discouraging technological improvements as a means of avoiding technological unemployment. See "Full Employment and International Trade," *Economica* (Aug., 1946), pp. 159–68.

[8] Recent reports indicate that Britain is finding it increasingly difficult to achieve a balance in her trade with several countries with whom she has negotiated payments agreements and has therefore been forced to restrict exports to those countries. See Michael L. Hoffman, "Belgium, Britain Seek Even Trade," *New York Times*, January 8, 1946.

seeks to provide a multilateral system which is sufficiently flexible to withstand severe economic shocks. In addition to the means afforded countries for protecting their balance of payments in periods of decreasing external demand, the Fund is equipped with large reserves of international exchange to serve as a buffer in the event of trade maladjustments. This system should be able to secure all of the alleged advantages of bilateralism for the protection of the internal economies of its members while preserving to the maximum degree possible the universally recognized benefits of multilateral trade.

### *Quota and License Restrictions*

Articles 25–28 of the *Redrafted Charter* establish certain rules for members regarding the use of import and export quotas and licensing. Article 25 begins with a statement of the general rule against the maintenance of general import and export restrictions, "other than duties, taxes or other charges, whether made effective through quotas, import licenses or other measures, except as otherwise provided in the Charter." The exceptions to the general rule are so numerous and involve so many complications that it might have been easier to write the regulations by enumerating the conditions under which quantitative controls may be employed rather than stating them in terms of exceptions. The necessity of tying in the regulations of the Charter with equivalent regulations of the Fund is in part responsible for the abstruse manner of their presentation.

Paragraph 2 of Article 25 states that restrictions on imports and exports may be imposed or maintained during the postwar transition period (terminating July 1, 1949) when such restrictions are essential to (1) the equitable distribution of products in short supply among several consuming countries; (2) the maintenance of wartime price controls; and (3) the orderly liquidation of temporary surplus stocks arising out of the war. Export or import quotas or licensing may also be imposed under intergovernmental commodity arrangements concluded in accordance with the provisions of the Charter. Finally, Article 25 permits import restrictions on agricultural or fisheries products to be imposed when necessary to enforce governmental measures designed to (1) restrict the production of similar domestic products or (2) to remove a temporary surplus of a similar domestic product by making the surplus available to certain domestic consumers free of charge or at prices below current market levels.

The purpose of this last provision (Article 25, par. 2 [e]) is to enable members to carry out a domestic price-support program for agricultural products without interference from increased agricultural imports.[9]

[9] This provision was contained in the United States *Suggested Charter* in substantially the

Since price-support and marketing arrangements for agricultural commodities are likely to be the rule in most agricultural producing countries in the postwar period this exception may prove to be a serious departure from the fundamental rule unless members use the privilege sparingly and limit its use to emergency situations. Some safeguard against misuse is provided in Article 25, par. 2 (f) which states that the restrictions "shall not be such as will reduce the total of imports relative to the total of domestic production, as compared with the proportion which might reasonably be expected to rule between the two in the absence of such restrictions. In determining this proportion the Member shall pay due regard to the proportion prevailing during a previous representative period and to any special factors which may have affected or may be affecting the trade in the product concerned."

Nevertheless, there is a very real danger that a country such as the United States which, in the light of her probable future balance of payments and the increasing importance of her industrial exports ought to be increasing the ratio of her raw material imports to domestic production, might use this loophole as a means of maintaining domestic prices and production of agricultural commodities. If we are to achieve a balanced international economy in a dynamic world, trade must not be frozen according to the pattern of a previous period. This is a danger inherent in all quota schemes which use as their principal criterion for the allocation of imports the trade relationships of a previous period.[10]

The most important exceptions to the general rule covering quantitative import restrictions are to be found in Article 26 of the *Redrafted Charter* entitled "Restrictions to Safeguard the Balance of Payments." Import restrictions may be employed under the following conditions:

1. New import restrictions may be introduced in order to prevent a serious decrease in a member's monetary reserves or in the event that reserves are very low, to achieve a reasonable rate of increase in these reserves.

2. Members are required to eliminate these restrictions whenever the conditions which gave rise to their imposition no longer exist.

3. Members are required to consult the Organization before imposing restrictions for the purposes stated in (1) or as soon as practicable thereafter. Members may, if they so desire, consult with the Organization with a view to obtaining previous approval of restrictions which they intend to impose.

---

same form as in the *Redrafted Charter*. It was obviously included as a means of making the ITO Charter consistent with the United States agricultural program.

[10] For a more complete discussion of this question see M. S. Gordon, "International Aspects of America's Agricultural Policy," *Am. Econ. Rev.*, Vol. XXXVI, No. 4, Part 1 (Sept., 1946), pp. 596–612.

4. The Organization may at any time invite a member which is imposing import restrictions (whether they be imposed since the inauguration of the Organization or before) to consult with it regarding the restrictions in force. Within two years of its institution the Organization shall review all restrictions existing at the time of its inauguration and subsequently introduced.

5. Any member which feels that its interests are injured by the imposition of a restriction by another member may make a complaint to the Organization. The Organization may after a full investigation recommend the removal or modification of the restriction. If the member fails to act favorably on the recommendation of the Organization within sixty days, other members shall be released from their obligations under the Charter with respect to their dealings with the member imposing the restriction.

### *Cooperation with the Monetary Fund*

Article 29 of the *Redrafted Charter* provides that members of the ITO agree not to seek by trade action to frustrate the purposes of the Fund, and likewise not to seek by exchange action to frustrate any of the purposes of the ITO. This means, in effect, that members of the ITO may not employ quantitative or exchange restrictions unless their effect would be that of actions permitted under *both* the ITO Charter and the Fund Agreement. If a case should arise where exchange controls would be permitted under the Fund Agreement, but quantitative restrictions would be prohibited under the Charter, a member of the ITO could not employ either quantitative or exchange restrictions. Article 29 also requires the Organization to seek the advice and cooperation of the Fund both as regards general policies and with respect to individual cases, where a balance of payments question is involved. In addition to providing for cooperation with the Fund it was necessary to draft the ITO Charter so as to be entirely consistent with the Fund Agreement.

Exchange restrictions on current transactions are permitted by the Fund Agreement in three general ways. First of all, there is the permission given to members to retain existing or introduce new restrictions during the transitional period.[11] Although no date is given for the termination of the transitional period, the Articles of Agreement state (Article XIV, Sec. 4) that five years following the date on which the Fund begins operation members retaining exchange restrictions under Article XIV must consult with the Fund as to their further retention and act favorably on such recommendations as the Fund may make. Since the ITO is not expected to begin operations until sometime in 1949, the requirement that the Organization shall review all import

[11] *Fund Agreement*, Article XIV.

restrictions in effect within two years of its inauguration, means that the two reviewing actions will occur roughly at the same time.[12] It should be pointed out that under the *Redrafted Charter* no transitional period is provided with respect to the use of quantitative restrictions for balance-of-payments purposes. Unless a member has obtained prior approval for its use of restrictions for balance-of-payments purposes, such restrictions may be challenged at any time after the ITO is established.

The second way in which the Fund may permit the imposition or retention of exchange restrictions on current transactions is by direct authorization. Article VIII of the Fund Agreement outlining the general obligations of members states that, subject to certain other provisions of the Agreement, members may not impose restrictions on payments and transfers for current international transactions or engage in discriminatory currency practices *without the approval of the Fund*. This is a somewhat stronger requirement than that imposed under the ITO Charter since under Article 26 of the *Redrafted Charter* members may consult the Organization regarding the imposition of restrictions for balance-of-payments purposes either before or after the introduction of the restrictions. However, approval of the restriction may not be given by the Organization without previous consultation with the Fund.

The third way in which the Fund permits members to employ exchange restrictions is by declaring the currency of a member to be scarce.[13] When the Fund has exhausted or is about to exhaust its supply of a particular currency and there is in the opinion of the Fund a general scarcity of that currency, it may declare that currency to be scarce. In the event of such declaration all other members may impose restrictions on payments and transfers in that currency provided the restrictions are no more severe than necessary to limit the demand for the scarce currency in relation to the supply held by or accruing to the member imposing the restriction.[14] Article 28, par. 1 (a) of the *Redrafted Charter* permits members of the ITO to employ import restrictions which have an effect equivalent to the restrictions authorized by the Fund in the event the Fund declares a currency to be scarce. This provision recognizes that a country may find it more convenient to employ import restrictions rather than exchange restrictions to achieve the purpose of discriminating against a member whose currency has been declared scarce.

### *The Rule of Non-Discrimination*

There are two fundamental rules which nations must abide by if we

[12] The beginning of the Fund's operations has been set for March 1, 1947.

[13] *Fund Agreement*, Article VII.

[14] *Fund Agreement*, Article VII, Sec. 3 (b).

are to have a multilateral trading system: (1) convertability of currencies for current trade purposes and (2) non-discrimination in the application of import restrictions. It is essential that nations be afforded the means of safeguarding their overall balance of payments, but if the methods employed are non-discriminatory as between sources of supply, the multilateral character of the trading system may be preserved. One difficulty with the rule of non-discrimination is that when there exists a general shortage of a key currency the widespread introduction of non-discriminatory restrictions will have the effect of reducing trade not only between the key-currency country and the rest of the world, but will restrict trade generally. This happened in the period 1930–33 when a shortage of dollars led to the general imposition of exchange controls with respect to all foreign exchange and not just the dollar. Subsequently, most countries sought to restore their trade by clearing and payments arrangements which avoided a further reduction of their foreign exchange reserves.

The common aim of the Fund and the proposed ITO is to permit countries to safeguard their balance-of-payments position by the use of exchange and import restrictions under international supervision while at the same time preserving the multilateral character of world trade by requiring these restrictions to be non-discriminatory in their application to trade with other members. In addition these institutions, together with the World Bank, the Food and Agriculture Organization and other international organizations sponsored by the United Nations, seek to reduce the need for a resort to direct controls by assisting countries in the making of fundamental adjustments in their economic structures necessary for the achievement of international equilibrium and by providing a pool of international currencies which may be drawn on for short periods in time of emergency. In order to prevent the development of a scarcity in the world's supply of a particular currency from leading to widespread restrictions on all trade, members of the Fund and the ITO are permitted to impose discriminatory restrictions against the scarce-currency country. In this way the rest of the world can continue to operate as a multilateral trading area.[15]

Article 27 of the *Redrafted Charter* provides that, subject to certain exceptions, import and export restrictions which are permitted by other articles of the Charter must be non-discriminatory. The following principles are to be observed in carrying out this general requirement:

1. In applying import restrictions global quotas should be employed whenever practicable.

[15] A serious defect in this scheme lies in the fact that in the event a key currency is declared to be scarce a number of countries may continue to require payment for exports in the key currency. Thus a shortage of dollars may mean in effect discrimination against all of the countries in the so-called "dollar area."

2. Where global quotas are not practicable, import licensing may be used, provided that the import licenses shall not require the importer to purchase the product from a particular country except for the purpose of allocating a quota among the supplying countries in accordance with (3) below.

3. In the event that the member applies restrictions in the form of a quota allocated among the supplying countries, the shares of the various countries should be determined in accordance with commercial considerations, such as, *e.g.*, price, quality, and customary sources of supply. Where this method of allocating shares in a global quota is not practical, the member may allocate to member countries having a substantial interest in supplying the product shares based on the proportion of the total imports each member supplied during a previous representative period, with due account being taken of any special factors affecting the trade in that commodity.

4. Members applying restrictions in accordance with one or more of the methods outlined above are required to publish complete information as to the method of administering the restrictions.

5. Members allocating shares in a quota on the basis of the proportions of the total imports supplied by other members during a represen tative period shall upon the request of any other member having a substantial interest in supplying that product, or upon the request of the Organization, consult with the other member or with the Organization regarding the selection of the base period.

6. The above provisions apply to tariff quotas as well as to import quotas.

There are obviously great difficulties in the formulation of regulations which will assure the non-discriminatory application of import quotas. A country may discriminate against the trade of another country in the choice of the commodities subject to the import restriction, or in the classification of the commodities to which the restrictions are to apply. Presumably the Organization could prevent discrimination based on an arbitrary classification of products. The provision which permits a member country to allocate a quota on the basis of commercial considerations is also susceptible to misuse. Government bureaus are influenced by a variety of economic and political motives and their judgment as to the purely commercial advantages of importing a particular commodity from one source rather than from another may very often differ from the combined decisions of private traders operating in free markets. Finally, mention has already been made of the dangers involved in employing a previous period as a base for allocating import quotas. However, these difficulties are not likely to be solved by a refinement of the formal regulations of the Charter. The success of the non-discrimination

clauses will depend in large measure upon the good faith of the members themselves in living up to the spirit rather than simply to the letter of their obligations.

Certain exceptions to the rules regarding non-discrimination are worth noting. Mention has already been made of the exception granted in the event that a member's currency is declared to be scarce by the Monetary Fund. The other important exceptions to the rule of non-discrimination may be summarized as follows:[16]

1. Prohibitions or restrictions essential to the equitable distribution among several consuming countries of products in short supply in accordance with the provisions of Article 25, par. 2 (a) (i) of the *Redrafted Charter*.

2. Export or import quotas imposed under intergovernmental commodity agreements in accordance with Chapter VII of the *Redrafted Charter*.

3. Conditions attaching to exports which ensure that the exporting country receives for its exports its own currency or the currency of any member of the Monetary Fund specified by the exporting country. (Thus Venezuela may require that exports of petroleum be paid for only in dollars.)

4. A group of territories having a common quota in the Fund may apply restrictions otherwise consistent with Article 27 against imports from other countries which may not apply to trade among themselves. (Thus Britain could exempt her colonies or mandated areas from import restrictions applied against imports from other countries.)

5. Restrictions imposed or maintained during the transitional period ending December 31, 1951, by a member whose economy has been disrupted by the war, provided the measures do not involve a substantial departure from the non-discriminatory rules outlined in Article 27.

6. Restrictions which would provide a member with additional imports above the maximum total of imports which it could afford in the light of its balance-of-payments position if its restrictions were consistent with the rules on non-discrimination, provided such restrictions have the equivalent effect of exchange restrictions permitted to members of the Monetary Fund or, in case the ITO member is not a member of the Fund, are permitted under the terms of any special exchange agreement between the member and the ITO. (This provision would permit members to employ clearing, payments or other arrangements of a bilateral character for the purpose of expanding their imports, provided the discriminatory import restrictions involved were equivalent to the discriminatory exchange restrictions authorized by the Fund Agreement under Article XIV dealing with transitional arrangements.)

[16] *Redrafted Charter*, Article 28.

The last two exceptions outlined above involve substantial departures from the fundamental rule of non-discrimination. They were included in the *Redrafted Charter* in recognition of the difficulties which many countries are facing during the transitional period and are in harmony with the postwar transitional arrangements provided in the Fund Agreement. Many countries whose economies have been seriously disrupted by the war and whose reserves of gold and "hard" currencies are inadequate for their import requirements have sought to restore their trade in the postwar period by means of payments agreements and other bilateral arrangements. There are at present in effect about seventy-five payments agreements involving fifteen European countries. Those responsible for drafting the Fund Agreement and the ITO Charter took the view that to ask countries to abolish these payment agreements or make the balances arising out of the transactions under the agreements immediately convertible into third currencies would have the effect of severely disrupting the progress which has already been made toward the restoration of normal trade among these countries.

Article 28 of the *Redrafted Charter* provides two important safeguards with respect to use of these exceptions to the rule of non-discrimination. First, whenever the Organization, after consultation with the Fund, finds that the import restrictions or the exchange restrictions are being employed by a member in a manner which discriminates unnecessarily against the trade of other members, the member must within sixty days remove or modify the restrictions specified by the Organization. Secondly, when three-fourths of the members of the Organization have accepted the obligations of Article VIII of the Fund Agreement, *i.e.*, notified the Fund that they no longer intend to avail themselves of the exemptions from the fundamental rules on exchange transactions provided under Article XIV of the Fund Agreement, but in any event before December 31, 1951, the Organization shall review the exceptions to the rule of non-discrimination permitted under paragraph (6) above with a view to their early elimination.

This review is to be undertaken in consultation with the Monetary Fund. This last safeguard is especially significant since it fixes a definite limit for the termination of the transitional period during which these exceptions to the rule of non-discrimination are generally permitted. Without limiting the jurisdiction of the Fund with respect to matters involving the use of exchange transactions, this provision should enable the Fund and the ITO to coordinate their activities in terminating the general exceptions granted during the transition period by 1952.[17]

[17] One of the criticisms of the Fund Agreement has been that it fails to establish a definite date for the termination of the postwar transitional period during which the general obliga-

### *Membership in the Fund*

Article 29 of the *Redrafted Charter* provides that members of the ITO shall also become members of the Monetary Fund. Some of the members of the Preparatory Committee took the position that special provision should be made for countries which were not willing to join the Fund or which ceased to be members of the Fund, subsequent to their joining the ITO. Although this question was not finally determined at the London Conference, the report of the Preparatory Committee stated that it was generally agreed that any member of the ITO which was not also a member of the Fund should be required to enter into a special exchange agreement with the ITO, in which the member would agree not to frustrate the purposes of the Organization by means of exchange practices. Although the exact nature of this special exchange agreement was not determined by the Conference, it would appear that the purposes of the ITO could only be safeguarded by requiring the member in question to assume all of the obligations of the Fund Agreement with respect to the use of exchange controls, discriminatory and multiple exchange practices, and to the maintenance of exchange rates.[18]

If the ITO should require all members not joining the Fund to assume all of the obligations of the Fund relating to exchange practices, the only valid reason for a member of the ITO not being a member of the Fund would be an unwillingness of the member to assume the financial responsibilities incidental to membership in the Fund. It might well be argued, however, that it should be the duty of all members of the ITO to accept the financial as well as the other responsibilities for the creation of a stable and abundant world trade. If this interpretation is accepted, there seems to be no valid reason why membership in the Fund should not be made compulsory for members of the ITO.[19]

### *State Trading*

Probably the most serious breach in the pattern of multilateral trade

tions regarding the use of exchange controls are suspended. The *Redrafted Charter* seeks to correct this defect.

[18] Since exchange rate practices are effective instruments of commercial policy a member could defeat the purposes of the ITO by means of competitive exchange depreciation or discriminatory currency practices which would have an effect equivalent to the trade practices outlawed by the Organization.

[19] In the event that a member of the ITO was not also a member of the Fund or in the event that a member of the Fund was not also a member of the ITO, difficulties would arise regarding the application of sanctions against non-members. The Fund Agreement *permits* members to discriminate in their exchange dealings with non-members (Article XI, Sec. 2); while the *Redrafted Charter requires* its members not to make arrangements with non-members whereby the non-members would be automatically entitled to the most-favored-nation treatment under the Charter, including the benefits of tariff reductions negotiated with members in accordance with the provisions of the Charter (Article 36, paragraphs 2 and 3).

woven by the ITO Charter is the section dealing with state trading. The recognition given in Section E of the *Redrafted Charter* of the right of members to monopolize foreign trade in any commodity represents a compromise with political and economic reality which is necessary to assure acceptance of the program by a large number of countries. Most European countries employ state trading in one degree or another. The growth of state trade is in part an inevitable concomitant of the recent trend toward socialization of industry. Nations cannot be asked to permit free trading by importers and exporters in commodities the domestic production and distribution of which has been nationalized. The most that could be hoped for would be to require that foreign trading would be at least as free from governmental monopoly and controls as domestic trading. But this objective would be difficult if not impossible to achieve in an international agreement.

But a recognition of the practical necessity of the position taken by the ITO Charter with respect to state trading should not blind us to its dangers.[20] The rationale of the sections of the *Redrafted Charter* on state trading is to fit state-trading practices into the pattern of multilateral trade conducted by private enterprise while preserving the multilateral character of trade as a whole. State-trading enterprises are required to conduct their operations in a non-discriminatory manner and in making foreign purchases or sales of any product, to "be influenced solely by commercial considerations, such as price, quality, marketability, transportation and other terms of purchase or sale, and also differential customs treatment."[21] In other words, state-trading enterprises are supposed to behave like unregimented private traders, buying where-ever they can at the lowest possible price with due regard for quality or selling to the highest bidder, regardless of any political or economic considerations beyond the purely commercial ones relating in the particular purchase or sale involved.

Theoretically it is possible to have a multilateral trading system in a world of state monopolies, in which each transaction would be governed in accordance with the principle of relative competitive advantage both with respect to domestic sources of supply and to the various sources of supply abroad. Such a system would require the avoidance of bilateral deals and trade discrimination. To achieve the maximum benefits of international specialization, the prices of exportable commodities should bear a close relation to their costs as reflected in the relative scarcities of the factors of production employed in their domestic production, and the decisions regarding what and how much to import

[20] See my "Questions of Foreign Economic Policy," *Commerical and Financial Chronicle,* December 19, 1946, pp. 3215 ff.

[21] *Redrafted Charter,* Article 31, par. 1.

would have to be made on the basis of the relative costs of home production and foreign procurement.

Since as a practical matter this ideal is not likely to be achieved, the existence of state-trading monopolies will almost inevitably do violence to the principles of multilateral trade and of trade in accordance with the principle of comparative advantage. The activities of those state-trading enterprises concerned with foreign procurement and those concerned with sales abroad will almost certainly be coordinated. It is too much to expect that the right hand of the purchasing agency will completely ignore the left hand of the exporting agency. There will inevitably be a tendency for state-trading enterprises to enter into bilateral arrangements, either explicit or implied, with other state-trading nations or even with countries in which foreign trading is in private hands. There is in this tendency the danger that nations will be forced into bilateral deals with state-trading nations in order to protect or expand their own trade.[22]

State-trading enterprises, like all other governmental agencies, are instruments of national policy. In any well-organized government their operations will be coordinated and regulated in conformity with domestic price and production policies and with the international and political objectives of their respective governments. Since broad national policies may often be in conflict with the realization of the purely commercial advantages relating to individual foreign trade transactions, violations of the spirit, if not the letter of the provisions of the Charter with respect to state-trading practices are almost inevitable. This is likely to be true even if we assume the best of faith on the part of the governments accepting membership in the ITO.[23]

The foregoing is not to be regarded as a criticism of the United States proposals for an ITO Charter or of the work of the Preparatory Committee. The course taken by the *Redrafted Charter* is probably the best compromise that can be achieved between the interests of those nations moving in the direction of economic nationalism and those which adhere to a system of private enterprise in international trade. The conflict of principles involved in the Charter is also a reflection of the conflict between free and multilateral trade on the one hand, and controlled trade on the other, which is taking place in the countries represented on the Preparatory Committee. This conflict was expressed in an editorial in *The Economist* which stated that the British delegates to the London

[22] Some safeguard against this contingency is provided in Article 40 of the *Redrafted Charter* which gives any member the right to make representation to the Organization regarding the practices of another member which are considered to be contrary to the purposes of the Charter.

[23] What has been said regarding state-trading enterprises applies equally to the operations of privately operated import and export associations in which foreign trade in particular commodities or group of commodities is centralized in one organization.

Conference "were also no doubt embarrassed by the strange dichotomy that appears to prevail in the Labour Government, on the subject of economic policy at home and abroad, by which an advance toward the planned state at home can be cheerfully combined with a return to unplanned trade abroad."[24]

As a minimum, the ITO Charter will provide a mechanism for consultation regarding the practices of state-trading countries and will reduce the degree of violence to the principles of multilateralism involved in state-trading operations. The Organization may also be instrumental in preventing some nations from being forced into nationalizing their foreign trade against their will by the actions of other state-trading countries.

### *Other Provisions of the Charter*

Many of the other provisions of the Charter have important implications for establishing the conditions for multilateral trade. The application of the most-favored-nation principle in all tariff agreements, the limitations on the use of export subsidies, the standardization of customs procedures, and the outlawing of restrictive practices engaged in by international cartels, are all significant for minimizing discrimination in international trade. Special mention should be made of the provisions of Chapter IV of the *Redrafted Charter* dealing with economic development, and those of Chapter VII which are concerned with procedures for the negotiation of intergovernmental commodity agreements involving the regulation of production, trade and prices.

The chapter on economic development in the *Redrafted Charter* is a new chapter, not included in the *Suggested Charter*. The significant provisions for the purpose of this article are to be found in Article 13, which opens the way for any member to employ protective measures otherwise in conflict with the obligations of the Charter, for the purpose of furthering a program of industrial development. The Organization may grant exceptions to the general obligations of the Charter to members for industrialization purposes; consent for relief from obligations negotiated with other members must be obtained through renegotiation with the members concerned. The dangers involved in granting such exceptions to the obligations of the Charter are obvious. Nevertheless, there is considerable justification for giving assistance to relatively undeveloped areas which are engaged in a program of rapid industrialization. Experience has shown that the attainment of a certain degree of industrialization tends to increase both the size and the stability of real national incomes.[25] Moreover, a better balance between industrial and

[24] "Trade Make-Believe," *The Economist*, November 30, 1946.

[25] See *Industrialization and Foreign Trade*, League of Nations Pub. (New York, Columbia Univ. Press, 1945).

agricultural production tends to minimize fluctuations in the balance of payments of raw materials countries and to make their economies less vulnerable to sharp fluctuations in the world demand for their exports. Provided these exceptions are granted judiciously and are not misused, the end result may well be a contribution to the stability and long-term expansion of world trade.

Much the same reasoning may be applied to the provisions of Chapter VII which seek to bring the negotiation of intergovernmental commodity agreements for the regulation of production, trade, and prices of primary commodities, under the supervision of the Organization. The great danger involved in such arrangements is that their operations may not be confined to the elimination of short-term price fluctuations and temporary surpluses, but that they will interfere with price and production adjustments to basic shifts in the conditions of long-term demand and supply. For example, the commodity agreements may seek to establish prices of primary commodities which are always high enough to cover the costs of the least efficient producers, thereby preventing the more efficient producers from capturing a larger share of the international markets. Marketing quotas may be based on the relative shares of the market held by parties to the agreements during a previous period without adequate consideration being given to fundamental shifts in supply and demand conditions. Such a development would tend to stifle economic progress and reduce the gains from trade.

On the positive side, intergovernmental commodity agreements may contribute to the stability and long-term growth of trade by eliminating sharp fluctuations in the prices of primary commodities which have frequently had disastrous effects on the terms of trade and the balance-of-payments position of raw material exporting countries. It will require the highest degree of economic judgment and statesmanship on the part of the Commodity Commission of the Organization, which is charged with the supervision of the negotiation of these agreements, to assure that the purposes of the Charter are furthered and not frustrated by the terms of these arrangements.

# COMMUNICATIONS

## National Economic Policies and International Monetary Cooperation

After a long period of careful preparation the officers in charge of the International Monetary Fund announced their readiness to commence exchange transactions early this year. The difficulties involved in determining the initial par values of member currencies have been recognized; but the managing director, Mr. Camille Gutt, has pointed out that agreement on the initial par values of a group of important currencies will make it possible to integrate gradually the currencies of those countries whose present economic situation does not permit the immediate selection of exchange rates. The executive directors of the Fund have adopted a realistic attitude toward the difficulties facing the stabilization of exchange rates. It is recognized that in the early months of its operation the Fund incurs the risk that not all of its resources will be used solely for temporary assistance; but the executive directors intend "to limit or postpone exchange operations with countries whose economies are so out of balance that their use of the Fund's resources would be contrary to the purposes of the Fund Agreement."[1]

Clearly, the great majority of nations will find it to their advantage to support the objectives of the International Monetary Fund. Indeed, by the act of joining the Fund the signatory nations have indicated approval of its principles. On the other hand, it is obvious that in a world of separate sovereignties every country regards itself, to a certain extent at least, as having signed the document on its own interpretation. Continued full cooperation can be expected only from those nations which believe themselves benefited by it, and the escape clauses inserted into the Articles of Agreement make it clear that this was the general understanding. These clauses are intended to take account of the fact that at a given time a country may have objectives that either conflict with the purposes of the Fund, or so occupy the country's attention that it is unable to carry out the economic and social policies required in support of the Fund's objectives.[2] It seems worth while to notice the nature and importance of these rival objectives.

In the first place, the degree of importance attached by nations to exchange stability depends, as one might suppose, on the extent to which they

[1] *First Annual Report of the Executive Directors to the Board of Governors of the Fund* (Sept., 1946).

[2] With respect to changes proposed by members in the par values of their currencies, Article IV(5)(f) states: "The Fund shall concur in a proposed change . . . if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change."

are concerned with external as opposed to internal economic problems. They may be expected to be particularly interested in the achievement of exchange stability immediately after a period of unemployment and international cut-throat competition occasioned by competitive exchange depreciation. Again, those nations are likely to be most impressed which suffered most from unstable currencies, while those which think they gained (at least relatively) through world-wide exchange depreciation may favor a repetition of the same device if the circumstances are later repeated. On the other hand, toward the end of the war, when the Bretton Woods plan was broached, many nations were sharply faced with the problem of maintaining internal currency values; stability of exchange rates was, for the time being, a derivative and secondary matter. It was understood that if currencies were stabilized after the war, the likelihood of obtaining large imports of the raw materials and other goods needed to ward off inflation would be greater. On the other hand, this seemed like a very indirect, and relatively ineffective, way of solving the problem of stimulating home production and relieving domestic inflation. Countries were prone to place more reliance on domestic policies, particularly since some of the most pressing financial difficulties seemed to have been occasioned by the international economic cooperation enforced by the war. All this meant that despite adherence to a stabilization proposal, preoccupation with domestic concerns might lead to the "fundamental disequilibrium" that must be accepted by the Fund as a valid reason for allowing a change in the par value of a nation's currency.

Although the great majority of nations have acceded to the objectives of the Fund, there is an understandable reluctance to allow control over exchange rates to pass to an international body. No country would permit another single country to determine the external value of its currency. Would it be much more acceptable, in the present state of international relations, to allow an international executive body to do so? The answer depends on how general is the belief in the disinterestedness of the executive directors of the Fund. Although the choices of personnel have been such as to inspire much confidence in the excellence of the management, of necessity they have had to reflect concentrations of national and regional power. Consequently, the less powerful the nation, the greater is the act of faith to be performed. That this fact was clearly recognized at Bretton Woods is evidenced by the struggle between the Latin American and western European nations with respect to the allocation of executive directorships. Each bloc perceived that if the other was able to swing the vote of the directorship on a proposed change in exchange rates, the result might be unfavorable to its own position in world trade: each expected to compete in the same markets. Again, it is inevitable that smaller nations should fear the power of the larger members of the Fund. Although the actions of the Fund will always be carried out in the light of publicity, decisions will have to be made on exchange rate changes, and these decisions are bound to be less favorable to some nations than to others. With skillful and disinterested management, of course, the possible doubts of smaller nation can be removed.

The desire for independence with respect to exchange rates is particularly

keen in the conflict of interest between nations newly industrialized during the war and older industrial nations now faced with the necessity of rehabilitating their economies. To the former some of the features of international monetary cooperation as defined in the Articles of Agreement of the Fund do not look attractive. Their position as industrial nations is shaky. Not only must they struggle to retain their recently acquired position as exporters of manufactured goods, but they expect to be threatened even in their home markets as rehabilitation of Western Europe proceeds. They may be counted upon to fight to retain their position, and in doing so are virtually certain to employ some trade practices quite inconsistent with the spirit of the Fund.

A more unfortunate, but rather understandable, aspect of the economic nationalism of the newly industrialized countries is the dislike (expressed particularly in Latin America) at being called upon to lend domestic currencies through the Fund to their western European competitors. It seems foolish to them to hasten the day when competition from abroad becomes more acute; lending to devastated countries through the Fund would shorten the time when the latter would be producing solely for home markets. Presumably this is a form of the infant industries argument: since these countries hold the view that the war merely hastened an inevitable industrialization, they draw the conclusion that Europeans cannot expect to recover their former share in Latin American markets, and by implication they appear to minimize the importance to themselves of the European market for their raw materials. Furthermore, they apparently doubt Europe's ability to supply them with the heavy machinery and new types of industrial products that they will need. Otherwise, they could hardly view with apprehension the revival of Europe's industry. Latin American nations have shown a disposition to cooperate with the Fund despite this objection. That they do so is attributable in part to an appreciation of other advantages derivable from international monetary cooperation, and in part to the probability that in one way or another the United States will assist in the rehabilitation of European industry. In other words, the cost, in terms of good will, of non-cooperation with the Fund would be excessive.[3]

The hesitancy of newly industrialized countries to accept all the objectives of international monetary cooperation is matched by a similar hesitancy on the part of the countries, particularly in Europe, whose industry has been worn out or destroyed during the war. Imports of raw materials

[3] The point of view outlined above has, of course, been urged by opponents of the Fund in the United States. Why, it is asked, provide dollar resources through the Fund and the bank to potential competitors who will thereby be enabled earlier to compete with us abroad, and even in our home markets? It is difficult to imagine a more defeatist point of view. The United States has ended the war with nearly every conceivable export advantage. The furnishing of dollars through long-term loans and through the Fund augments the demand for our goods. Our only problem is to maintain our great lead in industrial efficiency, and it is evident that for years to come the real difficulty will be to find enough competitive goods from abroad to maintain purchasing power for our own exports. It should be noted that the above refers to industry as a whole; it is not concerned with export difficulties facing particular industries, for example, cotton.

and machinery are favored over imports of consumers' goods; of the latter only that amount is desired which is necessary to maintain life and efficiency. Although the problem is fundamentally one of foreign exchange, the desire for austerity is carried so far that at times one might suppose that it is being practiced for its own sake. For example, Britain dislikes to accept French "luxury" goods in payment of surplus British exports to France. Yet Britain has a surplus of francs; and it comes down to an exchange matter after all, since the British would like, if possible, to convert these francs into currencies usable for the purchase of raw materials and equipment. The alternative (unacceptable to the French) would be the repurchase of these francs with exports of investment goods needed by France for her own rehabilitation. The adverse effect on international monetary cooperation of this attitude is obvious. Some countries may be relatively well endowed with the resources best used for the production of non-essentials; if a disability is placed on imports of this type, these countries are likely to find it difficult or impossible to make the correction of maladjustments for which the Fund is intended to give time and financial resources.

Another illustration of lack of confidence in the accomplishments of international monetary stabilization is the widespread desire for close financial and economic relations with particular countries or trading areas. The methods used by the Russians to create a trading bloc in eastern Europe are opposed to the objectives of the Fund. The system of bilateral financial and trade agreements sponsored by Britain throughout western Europe, might prove incompatible with a general accord. Other European countries are building up similar frameworks, for example, France and the Scandinavian countries. These agreements do indeed contain the provision that later adherence to an international fund is not prejudiced; but the pacts themselves provide for what is in effect a network of bilateral exchange clearing, a device that throttled international trade during the 'thirties; and in any case, they put the emphasis on exclusive economic blocs. It follows that adherence to the Fund would imply that all countries refrain from imposing conditions on the disposition of any balances of exchange accruing to them. But the resources of the Fund alone could not be counted upon to remove the desire of countries with unfavorable trade balances to try to insist upon exchange clearing. To accomplish this, properly rationed and adequate loans would have to be made from other sources. The enormous dollar exchange resources contemplated under the Keynes plan would, indeed, have made all countries more willing to sacrifice the immediate benefits of bilateral clearing than did the plan ultimately adopted. The American negotiators knew, however, that the Keynes plan was politically out of the question in the United States; on the other hand, perhaps something like the same effect could be achieved by an extensive system of United States long-term loans. Gradually commitments are being made that in the aggregate promise to compare ultimately with the volume of dollars provided for under the International Clearing Union proposal of Lord Keynes. Unfortunately, the origin of bilateral financial agreements and trading blocs is not traceable exclusively to exchange scarcity; broader economic and political considera-

tions are involved, and it may take more than generous loans to replace bloc and bilateral trading with a genuinely international interchange of goods.

Even more serious than the conflicts between international and national objectives mentioned in the foregoing paragraphs are the widely differing conceptions among nations, of the best means of preventing unemployment. The great advances in full-employment techniques, almost all national in origin and scope, which were made during the 'thirties have resulted in a general determination not to allow the present high levels of employment to be followed by another depression. Indeed, full employment has become the primary economic objective in a majority of the industrial countries today. It is this fact that makes the differing conceptions of the best way to achieve full employment an important obstacle to international monetary cooperation.

The employment philosophy of the United States is of major importance both because of her predominant position in the international economy and in the management of the Fund, and because in the past she has not been very successful in maintaining full employment. Although the original Treasury plan placed the emphasis entirely on stability of exchange rates and of international trade, the American experts became more and more impressed with the part that the Fund might be able to play in stimulating employment. Considerable publicity was given by Treasury and State Department spokesmen to Paragraph II of the Purposes of the Fund, which emphasizes the role of stable exchange rates in achieving a high rate of employment through high levels of international trade.[4] It was set forth that, freed from doubts concerning their ability to maintain the parities of their currencies, and sure of adequate supplies of scarce currencies to tide them over any period of industrial readjustment, countries would be willing to accept imports from nations able to send goods abroad after a long conflict. Thus production and employment in the United States, for example, would immediately rise, incomes would remain high, and a portion would be spent on imports from abroad. The fact that American industry would benefit first would not hurt the export industries of other countries, since throughout the world in general large imports of raw materials, machinery, and equipment would be needed before industries were ready to export.

The optimism of the American experts was unfortunately not shared by the representatives of most other nations. Reports from London at the time of the Bretton Woods conference indicated that in the opinion of the British government, any international commitment must be subordinated to certain domestic objectives, namely, (1) stable employment, (2) control over the internal price level, and (3) an assured position for the United Kingdom in the sterling bloc. In other words, Britain would insist on retaining control over the volume of employment and real income at home.

[4] Article I (ii): "To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy."

Rigid exchange rates were believed productive of unemployment rather than of confidence; the opinion has prevailed in Britain that her difficulties in the early 'thirties were largely explainable by adherence to a high rate for the pound sterling when she returned to gold in 1925. Certain politically important sections of British opinion adopted an even more uncompromising view: exchange control was believed to offer more scope than a buffer of foreign exchange resources would be able to do in achieving the freedom of domestic economic action indispensable to assure full employment. Like all countries unable to acquire scarce currencies in adequate amounts, Britain places her faith in the hope that stable exchange rates will follow from a high level of trade and employment.[5]

An extreme view on the unimportance of stable exchanges as the basis for full employment has been adopted by Australia, the most outspoken opponent of the American position at Bretton Woods. Fearing a recurrence of the situation of the 'thirties, when the depression in industrial countries had a magnified effect on the economies of nations producing raw materials, Australia wants to know how the former intend to maintain a high level of incomes.[6] If employment and incomes abroad are prevented from collapsing, raw material producers and agricultural countries will not worry about exchange rates. If not, any assistance the Fund could give would be inadequate. Another country relying mainly on domestic employment policies is Sweden. According to recent statements she wishes to continue her prewar policy of price stabilization. A committee of experts appointed by the Riksbank in May, 1943, concluded that employment should be stabilized by adhering to the price program that had served so well in the past; there could be no unconditional pegging of exchange rates because of the difficulty of reconciling this action with the basic objectives of domestic monetary policy. Through especially close economic relations with the "Nordic bloc" the effects of insulation would be minimized and, as occasion offered, the Swedish economy would be linked more closely with the world economy.

Finally, in the opinion of economists in some nations the major cause of unemployment throughout the world in the interwar period was the impact of the American depression and economic policies. Irrespective of the justice of this view, its acceptance denotes a reluctance to be closely joined with America's economic fortunes. It is a problem for some countries to decide whether to rely on the consumers' market in the United States, or to turn their attention to European and other markets.

[5] An important school of thought in the United States emphasizes the role that must be played by high levels of employment in bringing about exchange stability. Thus Alvin Hansen, in *America's Role in the World Economy* (New York, Norton, 1945), points out that imports are generally regarded as desirable only where there is full employment. One infers that with full employment, payments balance, and there is no pressure on exchanges. It should be noted that there is no reason to believe that stable exchanges *must* result from full employment.

[6] "In the opinion of the Australian delegation the purposes of the Fund, which provide criteria for its management, place too little emphasis on the promotion and maintenance of high levels of employment, and too much emphasis on the promotion of exchange stability and on shortening the duration and lessening the degree of disequilibrium in international balances of payments." Statement by the delegation of Australia concerning Article I of the Articles of Agreement of the International Monetary Fund.

This paper has attempted to call attention to the existence of certain national attitudes and objectives that may stand in the way of full monetary cooperation despite general adherence to the principles of the International Monetary Fund. These obstacles simply reflect the heterogeneity of the economic, political and social interests of the nations of the world, and their existence does not at all imply the failure of monetary cooperation. It is nevertheless true that the growing economic nationalism of the interwar period may be resumed, and if so, the work of those engaged in the furtherance of monetary and economic cooperation will be complicated.

KENYON E. POOLE*

* The author is associate professor of economics at Brown University.

## Marginal Theory and Business Behavior

In the September, 1946, *American Economic Review*,[1] Professor Machlup criticizes Professor Lester's and other empiricists' statements that conventional marginal theory has been demonstrated to be largely invalid as an explanation of reality,[2] and presents in summarized form his own exposition of marginal revenue-marginal cost analysis. This paper remarks briefly concerning four of the numerous theoretical aspects of Professor Machlup's comments.

1. Is it methodologically more helpful to give "marginal revenue" and "marginal cost" the very broad meanings preferred by Professor Machlup and various other economists, or to employ the more restricted definitions used by Professor Lester and probably the majority of economists?
2. Must a firm which attempts to maximize profits necessarily make any types of calculations which can reasonably be said to involve even the expanded concepts of marginal revenue and marginal cost?
3. If the "burden of proof" were placed upon exponents instead of critics of marginalism, what positive evidence in favor of marginal theory could be brought forward?
4. Can even broadly expanded marginal theory account for the infrequency with which changes in prices and/or pricing rules take place, and for the extent (as well as direction) of the changes which *do* occur?

### I

To a fairly important extent, Professor Machlup's criticisms of marginalism's critics are based merely upon choices of definitions. Some critics speak of fears and hopes of later happenings as considerations supplementary to rather than entering into the calculation of marginal revenue and marginal

[1] Fritz Machlup, "Marginal Analysis and Empirical Research," pp. 519–54.

[2] Principal attention is paid to Richard A. Lester, "Shortcomings of Marginal Analysis for Wage-Employment Problems," *Am. Econ. Rev.*, Vol. XXXVI, No. 1 (Mar., 1946), and R. L. Hall and C. J. Hitch, "Price Theory and Business Behavior," *Oxford Economic Papers*, No. 2 (1939).

COMMUNICATIONS 377

cost.[3] Professor Machlup apparently defines marginal revenue as "any additional income expected to result either directly or indirectly from the action in question," and marginal cost as "any additional outgo expected to result either directly or indirectly from the action."[4]

Now there is no question of the logical permissibility of Professor Machlup's definitions. Not only is there present the usual freedom of definitional choice, but also there is a decided kinship between an additional income accruing in manner A and another additional income accruing in manner B, and between an avoidable expense occurring in manner X and another avoidable expense occurring in manner Y.

Nevertheless, the narrower marginal definitions are probably methodologically more helpful. Professor Machlup himself has indicated the chief weakness of his own broader definitions in his criticism of the expansion of marginal theory to include non-pecuniary gains. "There are," he says, "economic theorists who would include considerations of this sort among the data for the marginal calculus of the firm. . . . It seems to me to be methodologically sounder if we do not reduce the non-pecuniary satisfactions and dissatisfactions . . . to money terms and try to make them part of the profit-maximization scheme of the firm. If *whatever* a business man does is explained by the principle of profit-maximization . . . the analysis acquires the character of a system of definitions and tautologies, and loses much of its value as an explanation of reality."[5]

This is precisely the leading criticism of the expanded definitions of marginal revenue and marginal cost. If marginal revenue is defined to include every possible consideration concerning rises and falls in gross income, and if marginal cost is defined to include every possible consideration concerning avoidable costs, the statement that a business man trying to maximize profits will attempt to equate marginal revenue and marginal cost is merely a "highbrow" and awkward way of saying that he will consider everything that may increase his income and everything that may increase his outgo and then try to strike the best balance. The marginal phraseology adds nothing to our understanding. It merely places a language barrier between the economist and the layman and introduces an element of confusion by giving unwary analysts the impression that there are only two relevant variables instead of, say, 202, and by confronting students with awkward-sounding terms which are first learned and then "unlearned" in their narrower sense.[6]

Other reasons, in addition to tautology and basic confusion, for preferring the narrower definitions include:

(a) There is considerable value in a concept which can be pointed out as

[3] A passage to which Professor Machlup specifically objects is found on page 181 of Professor Lester's *Economics of Labor* (New York, 1941).

[4] Machlup, *op. cit.*, p. 524.

[5] *Ibid.*, p. 526.

[6] "To be sure, when an instructor teaches graphical analysis, he will do well to abstract from complicated cost and revenue anticipations and to concentrate on those that can be neatly packed away in geometric curves" (*ibid.*, p. 524).

378 THE AMERICAN ECONOMIC REVIEW

the explanation which *would* suffice if variables X, Y, and Z did not intrude. (Such limited-truth analysis is, of course, the special contribution of Marshallian-type theory.) This reluctance to part with a valuable concept is probably the attitude which Professor Machlup reflected when he stated that inclusion of non-pecuniary considerations would rob maximization analysis of much of its value.

(b) The narrower definitions of marginal revenue and marginal cost play important roles in the analysis of both the purely competitive firm and that curious phenomenon, the near-monopoly with a severely limited life. They achieve here the effect of greatly simplifying analysis; *i.e.*, through their use a briefly worded conclusion is made complete without being misleading because of hidden complexity. The blurring of such concepts not only creates confusion in the ways mentioned above, but also veils the simplicity of purely competitive and short-lived monopoly analysis.

(c) When the expanded concept of marginal revenue is employed, the sum total of marginal revenues over a given period of time will very probably be greater than total revenue for the same time period. This arises from the facts that part of the marginal revenue (broadly defined) from good-will sales consists of profits on future sales and that the marginal revenue from a later sale is not diminished by the allocation of its profit portion to a marginal revenue of the past. Some truly impressive discrepancies between the two totals can be demonstrated. Assume a firm with a hard-boiled purchasing agent who will for all time transfer his trade from any supplying firm which refuses to accept any order placed with it. Then each time that the supplying firm accepts an order from this purchasing agent, the marginal revenue derived from the sale equals the sales price plus the profits from all future sales. (Frederic Wakeman's novel *The Hucksters* illustrates the point.)[7]

(d) It is probable that, when business men think of various potential evils and goods, they frequently think first of imperfectly quantitative lump sums by which income and outgo will be increased or decreased by these possible future happenings, rather than of the effects upon the business man's substitutes for demand and supply curves. Psychologically, therefore, it is probably sounder not to include such calculations in the marginal-cost and marginal-revenue figures, however logically they can be fitted in. Moreover, omission of such consideration from marginal cost and marginal revenue would eliminate an unnecessary pedagogical headache. After learning about the "curves," students may be able to "unlearn" them and acquire the broader concepts of marginal cost and marginal revenue; but almost certainly they will not have the intellectual curiosity or the ability to go back and make such changes as are required in the demand

[7] One cannot escape this difficulty by stating that marginal revenue calculations are made for an entire "period" rather than for individual sales within that period. At each point in time when a sale is made a new marginal revenue calculation is logically implied. The advertising executives of *The Hucksters* had numerous occasions to calculate the marginal revenue derived from the soap tycoon's business.

"curve" and the other lines on the graphs. Rather they will leave the course with a few more than the usual quota of contradictory beliefs.[8]

(e) As Professor Machlup indicated in his discussion of average cost as a measurement of long-run demand elasticity,[9] there is kinship between the potential developments which marginally calculating business men prognosticate when they set price at (approximately) "average cost," and the developments which long-run theory states will result in a price approximating average cost. It is not helpful to rephrase the plain-language profit-maximization formula in marginal terms which, at first glance, appear to imply a strong contrast between the cost estimates which business men take into account and the cost figures that tend to approximate price in the long run.[10]

## II

At the beginning of his summarized exposition of marginal theory, Professor Machlup places a statement which, at first glance, may appear to be safely tautological. "The proposition," he states, "that the firm will attempt to equate marginal cost and marginal revenue is logically implied in the assumption that the firm will attempt to maximize its profits (or minimize its losses)."[11] This statement is *not* a tautology, however, unless the phrase "attempt to equate marginal cost and marginal revenue" is by definition made synonomous with "attempt to maximize profit." Instead, it is erroneous. There is no logical necessity that a business man make even the roughest of calculations concerning (broadly defined) marginal revenue and marginal cost before believing that a certain policy (say, percentage mark-up) will yield the greatest profit. Indeed, frequently there is no economic necessity that he reason marginally if he is to succeed. Ability to make use of marginal analysis is neither an invariable requirement nor an invariable promise of business success—as economic professors should be the first to emphasize.

Whether business men usually *do*, in some imperfectly quantitative way, reason marginally (in the broad sense of that term) if they wish to maximize profits, is, of course, another question. Economic analysis is not aided by the assumption that they *must*.

## III

The heart of Professor Machlup's paper is, of course, its attack upon the "alleged" empirical evidence of the limitations of marginalism. For this

[8] See the quotation from Professor Machlup above, footnote 6.

[9] Machlup, *op. cit.*, pp. 542–44.

[10] This statement does not imply more than a limited acceptance of the elasticity-of-demand argument. Analysis of both cartel and oligopolistic *selection of price* leads to the conclusion that only rarely would a "full cost" price maximize profits. Moreover, the "average" or "full" cost which business men use in their calculations and which tends to be equal to price in the long run, is at least as much price-determined as price-determining. It certainly is greater than "least cost."

This footnote supports Professor Machlup's argument in one respect, of course; *i.e.*, it casts doubt upon the adequacy of a "full cost" price policy explanation.

[11] Machlup, *op. cit.*, p. 521.

reason, comparatively little emphasis was placed on empirical evidence *supporting the validity of marginal theory*. Moreover, the approach of the empiricists whom he criticized invited, in a way, the adoption of a burden-of-proof attitude.[12] It is only fair to point out, however, that in a court of law or a formal debating society the judge or the rules committee would never allow the controversy to take the form in which it has so far been presented. For, if business men *say* that they think in average-cost terms, then, if the burden of proof rests upon anyone at all (and it should not in economic discussion), it rests on the marginalists who do not believe the business man, rather than on the economic iconoclasts who (with modifications of varying importance) take him at his word. Any economist is logically free to be sceptical of the accuracy and/or honesty of the business men's claim;[13] but the fact that conventional economic analysis has been built upon the rock of marginalism is not sufficient for more than an opening scepticism.[14] Empirical evidence must be offered, if the Rules of Order are to be obeyed. And, as Professor Machlup points out in his criticism of the antimarginal empiricists,[15] the evidence must not be subject to interpretation in alternative ways. In this case, the evidence must be logically consistent *only with marginal theory*.

Now there is no intent to argue here that considerable evidence of marginal thinking (especially in the broader sense of that term) cannot be found. *Cost Behavior and Price Policy*, for instance, refers to numerous examples.[16] But securing a sufficiently great body of empirical evidence to establish a strong empirical case for the general validity of marginal theory would probably be an impossible undertaking.

One obstacle here, of course, would be merely the general difficulty of securing "clinching" empirical evidence of any type; that is, even when

[12] *I.e.*, both Professor Lester's article and the Oxford economists' paper imply an attitude of "testing" *marginal theory*, rather than two or more alternative theories. (Richard A. Lester, *op. cit.*, and R. L. Hall and C. J. Hitch, *op cit.*)

[13] Professor Machlup believes that usually they do not *consciously* rationalize (*op. cit.*, p. 541). This leads to the "psychological" question of whether, if business men *believe* that their "real" as well as their immediate pricing policy is average-cost-plus-a-percentage, it is likely that their decisions will be exactly, or almost exactly, the same as those which they would make if they were fully aware of their motives. Economists attempting to answer such a question, of course, are "laymen," not technicians.

It might also be added that economists are "laymen" when they tackle the problem of rationalization in any form. There is the possibility, for instance, that, for numerous business men, Professor Machlup has described in reverse the rationalization process. As philosophers have long emphasized, there is a subtle process through which means tend to become ends. Perhaps, in this sense, business conservatives believe that "full cost" is a profitable pricing policy because they proclaim allegiance to it, rather than proclaim allegiance to it because they believe it a profitable policy.

[14] A burden-of-proof defense of marginalism is similar to the position taken by business-cycle theorists who insist that cyclical analysis must begin by explaining why the economy *departed from* a state of equilibrium. Both attitudes rest upon the assumption that a logically constructed theory has an empirical validity because of its sheer logic.

[15] Machlup, *op. cit.*, p. 537 ff.

[16] Conference on Price Research, *Cost Behavior and Price Policy*, pp. 267–88.

behavior is consistent with marginalism and when there is no obstacle of the business man's statement that he is not marginally minded, the chances are that there will be something about the behavior which will enable it to be fitted into only a "fractionally marginal" theory also. A perhaps more formidable obstacle consists of the business men's statements; the disclaimers of marginal thinking must be ***proved*** to be ***very largely*** wrong. Probably the most formidable obstacle of all to the seekers of empirical evidence of the validity of marginalism, however, is the fact that, quite apart from business men's statements, marginal theory does not seem to be even a nearly adequate explanation of business behavior. Some of the reasons for this conclusion are set forth in Section IV of this paper.

Professor Machlup, in the course of his attack on the antimarginalists, finds some positive support for the validity of marginalism in the movements of price-full cost margins. Evidence of the incompleteness or untenability of the average-cost thesis can be found, he says, in the fact that such margins vary among different firms at the same time, for the same firm at different times, and among different products of the same firms.[17]

This, however, is very limited evidence, since about all that it *definitely* indicates is that a *simple* average-cost theory of pricing is *incomplete*. The evidence does *not* indicate whether firms attempt to maximize profits or are content with some less ambitious goal such as "fair" or "satisfactory" profits. Neither does it provide an answer to the question raised below, in Section IV, concerning business men's "alertness" and the normalcy of their even seriously thinking about changes in prices. About all that it indicates is that, ***on some occasions, for some reason or reasons***, business men *pay some attention to* demand elasticities. It provides support for no more than a "*fractional* marginalism."[18]

IV

Part of Professor Machlup's reply to the empiricists is that marginal analysis is an explanation of change, not of a state-of-being. " . . . Marginal analysis really intends to explain the effects which certain changes in conditions may have upon the actions of the firm."[19] Now certainly marginal analysis is ***most useful*** as an explanation of change. Whether economic

[17] Machlup, *op. cit.*, pp. 541, 545–47.

[18] Indeed, if economists cared to play with words and broaden definitions, they could show that the evidence cited is logically compatible with a sort of "average-cost" explanation. As the above paragraph states, the evidence does not in any way prove that maximum profit rather than "fair profit" (over a period of time) is a firm's goal. Therefore, all that is necessary to fit the evidence into an "average-cost" explanation is to define average cost as "total expenses of the firm during the relevant time period, divided by total output" (with no distinction made between different types of output), and price as "total revenue of the firm during the relevant time period, divided by total output" (again with no distinction among different types of output). Employment of the definitions and the derived principle would not be a very instructive way of saying that the firm in question was trying to make a "fair" profit over a given time period, however. This wordplay has been introduced merely to illustrate again the conclusions that can follow from expanded definitions. The "average-cost" and "price" definitions given here are not much broader than the meanings sometimes assigned to the marginal concepts.

[19] Machlup, *op. cit.*, p. 521.

theory is aided by inattention to states-of-being is another question, however,[20] and economic theorists making use of marginal analysis have pretty generally tried to explain existing levels of prices and wages, etc., as well as the changes that have occurred and may occur.

Even if the narrower function of marginalism is accepted, certain doubts arise concerning the completeness of its explanation. If marginal theory is to be an adequate, or almost adequate, theory of change, it must account not only for the *movements* in prices, but also for the *lack of movement* at other times; and, more importantly, it must explain why the price movements which *do* take place can frequently be at least immediately accounted for by reference to certain rules of thumb, such as "full cost." Finally, when pricing rules are abandoned, marginal theory must explain not only the fact but also the extent of alteration.

A brief portrayal of the marginal theory's business man may serve to indicate some of the reasons for doubting the theory's adequacy. If business men prevailingly think along marginal lines, they must be in a continuous state of "alert," ready to change prices and/or pricing rules whenever their sensitive intuitions (rightly or wrongly) detect a change in demand or supply conditions (for the relevant time period, whether short or long). Marginal theory (broadly interpreted) does not postulate continuous change in prices, and still less does it postulate continuous departures from established pricing rules, since "short-run" developments may not be expected to alter supply and demand "curves" for a relevant longer time period; but marginalism does postulate continuous readiness to change. It is not logically compatible with either an easy-going or complacent attitude out of which a business man must be shocked into alertness, or a state of mind so engrossed with non-pricing matters that the business man usually has neither the ability nor the willingness seriously to consider price or policy changes. Especially, marginal theory is not consistent with that sort of conservatism which results in clinging to an established practice until events clearly show it to be unwise, or, in other words, with that type of cautiousness which leads a man to believe that his "independent" calculations probably would be wrong even if he made them and that it is safer to stick by the *status quo* or the "rules."[21]

[20] Inattention to states-of-being appears to be partly responsible for Professor Machlup's suggestion that cartel and oligopolistic use of a "full cost" pricing policy can be adequately explained in terms of the relationship of average cost to long-run elasticity of demand (*ibid.*, pp. 542–44). If a price equal to "full cost" is already quoted, cartel members and oligopolists may well fear, for elasticity-of-demand reasons, to depart from it. Elasticity-of-demand considerations do not, however, adequately explain why a price equal to "full cost" was selected in the first place. Analysis of both cartel and oligopolistic selection of prices leads to the conclusion that only rarely would a "full cost" price maximize profits.

[21] Professor Machlup argues that the cost and revenue figures of marginal theory are merely "subjective" guesses and hunches. Concerning the "subjectivity" of these estimates, there is no dispute. However, if business men believe that their guesses are *poorly informed*, they will be inclined to play safe and not make changes as long as all goes well.

In describing a business man's reasoning, Professor Machlup refers to the analogy of an autoist who makes a snap judgment to pass, or not to pass, a truck. But the analogy is not an apt one. There is a greater penalty for the autoist's lack of alertness; usually, at least, the

Now the extent to which business men are in a state of "alert" and to which they are willing to make and to rely upon "independent" calculations is not a question which can be decided *via* "theorizing" or even by feasible empirical research. However, at least some observers have not believed business behavior to correspond very closely to the "marginal" description, and deduction provides at least some evidence in support of such an observation. In an economy where common costs are prevalent and joint costs not infrequent,[22] where variables are numerous and mostly of complicated and uncertain nature, and where price decisions are only one type of worry, it would certainly be understandable if most business men usually decided to abide by accepted prices and/or rules until they were clearly proved wrong.

Marginalism (broadly interpreted) as an explanation of price-rule changes (and of price movements in those cases where there are no ascertainable price rules) is probably less subject to criticism than marginalism as an explanation of the infrequency of change. Even in this respect, however, it probably provides no more than a substantial part of the answer. Business men, for the most part, do not appear to be either as avaricious or as dynamic or as logical as marginal theory portrays them; probably most of them are too little money-loving, or too lazy, or too irrational seriously to attempt the prescribed marginal calculations.[23] And while marginal theory contains, no doubt, *this* degree of truth: few business men would make price or other changes if they did not expect *greater profits* (or smaller losses) to ensue, the more restricted conclusion that the new prices are selected because they are expected to *equate marginal revenue and marginal cost* does not necessarily follow.[24]

The history of cartels probably has some relevance to this question of the degree of validity of marginal analysis. Apparently most cartels have been formed to prevent or to minimize *losses*;[25] and while profit maximization and

driver of an automobile has fewer distracting worries; the highway variables are more obvious and not nearly so numerous or complicated; frequent highway decisions made and results proved probably have led to greater confidence in "independent" decisions; and finally, either the automobile driver does not have an established rule-of-thumb upon which he thinks he can rely—or, if he does rely upon such a rule without making a complicated "snap" calculation, he is not reasoning like a marginalist.

[22] For a discussion of the limitations of cost data, see the summarized report of an OPA study in M. L. Black, Jr. and Harold B. Eversole, "Cost Accounting in Price Determination," *Jour. of Accountancy*, November, 1946; also, Conference on Price Research, *Cost Behavior and Price Policy*, pp. 282–87. In addition to pointing out the limitation of *cost-accounting* data, Professor Black and Eversole argue that "OPA experience in thousands of cases clearly shows that proper costing cannot be done by 'rule-of-thumb' approximations or by intuition" (*op. cit.*, p. 371). This conclusion, of course, is as damaging to a half-way rigorous average-cost theory of pricing as to a half-way meaningful marginal theory.

[23] Again the lack of cost data, mentioned in footnote 22, may be emphasized. If business men generally wished seriously to attempt the prescribed marginal calculations, it appears that they would be more anxious to have more nearly adequate cost information.

[24] A comment made in footnote 13 also applies here. If business men do not *consciously* rationalize, do they *unconsciously* follow marginal analysis *very closely?*

[25] Economists who prefer to talk in average-cost terms express the same belief when they say that cartels have usually been formed because price fell, or threatened to fall, below average cost.

loss minimization are sometimes used loosely as synonyms, there is a wide margin between the two concepts' psychological significance. The relatively infrequent formation of cartels during periods of good business is probably ascribable in large part to the easier-going attitude of business men making "satisfactory profits" as well as to the optimism of go-getters expecting to widen their shares of the market.[26]

HENRY M. OLIVER, JR.*

[26] A further reason for doubting that marginal theory can adequately explain business behavior is to be found in the frequent quotation of "full cost" prices. As footnotes 10 and 20 point out, Professor Machlup's explanation of "full cost" pricing *via* reference to long-run elasticity of demand is inadequate. A reasonably complete elucidation of this argument, however, requires another paper—not just a few concluding paragraphs. See Henry M. Oliver, Jr., "Average Cost and Long-Run Elasticity of Demand," *Jour. Pol. Econ.*, June, 1947.

* The author is associate professor of economics at the University of North Carolina.

## Reflections on the President's Economic Report

Few economic documents have had so much thoughtful attention from economists as is likely to be given the *Economic Report of the President*,[1] transmitted to Congress on January 8, 1947. Considered simply by itself as a statement from the President of the United States on the national economy in a critical year, it is a report that merits serious attention; but to the eye of a professional economist it appears much more than an isolated presidential message. It marks the beginning of a great experiment, the success or failure of which might have profound consequences for the economic and possibly even for the political structure of the United States and of other nations. Depending for its success on enlightened public consideration of major economic problems of the nation, the experiment is a venture in economic education on a grand scale, and it presupposes a continuing distillation of critical knowledge and judgment on economic affairs which could significantly affect the development of economic science.

As an initial step in an economic experiment, this *Report of the President* must be viewed against the background of the Great Depression of the 1930's and the revolution in economic and political thinking which it engendered. Forcing action by national governments to remove or to soften its destructive effects, the depression brought wide acceptance of the view that governments of politically and economically advanced countries must assume an ultimate responsibility for effective operation of the national economy. They must see to it, in the common phrase, that continuing "full employment" is somehow provided.[2] There was left open as a

[1] Government Printing Office, Washington, 1947.

[2] There is probably no short statement that could win even majority approval as accurately expressing the responsibility of government; the Congress used over 100 words in the Employment Act of 1946 to state the obligation which it recognized. My own impression is that the "general view" in countries of the western world now attributes to government a potential responsibility greater than the declaration of policy of the Employment Act clearly expresses. As I interpret the congressional hearings and debate, Congress undertook in the act to place elsewhere much of the responsibility which it knew must devolve on the federal government if not successfully carried by others.

practical issue only the question of means. Must private-enterprise economies give way to socialism? May private enterprise be retained, with governmental emergency measures held in readiness and used whenever employment lags? Or can the functioning of private enterprise be so improved that no drastic emergency measures need be kept in readiness?

The answer which the United States offers to these questions is in the Employment Act of 1946. It is an answer with strong roots in the beliefs that an express commitment of the government to providing full employment would be a decision to strangle free private enterprise, and that on the preservation of free enterprise hangs also the preservation of democracy.

The obligation expressed in the Employment Act of 1946 is "that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy . . . to promote maximum employment, production, and purchasing power." As means to that end, the act places its reliance on wise economic advice elevated to a position of highest standing in public attention. It creates a Council of Economic Advisers which sits at the right hand of the President and assists him in the preparation of an annual Economic Report, conceived as the central feature of the effort.[3]

The Economic Report, accorded high place in the business of government, is to be considered with the dignified ceremony appropriate to its purpose. Each year it is to be transmitted by the President to the Congress at the beginning of the congressional session. A special joint congressional Committee on the Economic Report, created under the Employment Act, is charged with considering the report and filing with the Senate and the House of Representatives not later than February 1 "its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report."

Charged with such heavy responsibilities and given corresponding position in the affairs of government, what are the powers by which the Economic Report may meet the demands laid on it? In a word, they are the powers of education, of economic enlightenment.

Are these powers sufficient? Does there exist the knowledge required for the purposes of the Economic Report? If so, can it be assembled by the three members of the Council of Economic Advisers, and will it be well used by the President in his Economic Report? Will Congress act promptly and wisely on the recommendations which concern it, and will there be forthcoming "the assistance and cooperation of industry, agriculture, labor, and

[3] In his letter transmitting the *Economic Report of 1947*, the President acknowledged advice and assistance of members of the Cabinet and heads of independent agencies as well as of the Council of Economic Advisers.

The Council is required to make an annual report to the President in December of each year. It has interpreted this mandate as calling for something quite apart from the documents prepared as a basis for the *Economic Report of the President;* its first *Annual Report*, consisting mainly of an exposition of the political and economic philosophy of the Employment Act, presents an illuminating statement of its concept of the task assigned the Council. The Council's report includes as an appendix the revised text of the Employment Act.

state and local governments," to which the act looks for support in accomplishment of its aims? Time must give the answers to these questions; one asks them now only to explore implications of the assignment undertaken by the Economic Report.

Many economists may doubt whether the provisions of the Employment Act of 1946 are adequate to its purposes, but few will hesitate to bend their efforts toward its success. Its success would be a triumph of the democratic ideals of individual freedom, enlightenment, and disciplined social action. The procedures it establishes, even though they should prove inadequate to the main purpose, can scarcely fail to speed the development of economic science, to diffuse economic knowledge and understanding, and to lay a foundation for wise action on any further measures that may be needed.

The significance of the act for economists and for economic science has been outlined so fully elsewhere[4] that I see warrant for further comment here on only two points. The first concerns the position of the "Economic Budget" in relation to the act.

Central to the first Economic Report, as prescribed by law, is its presentation of "The Nation's Economic Budget," which is summarized in the text of the report and set forth in greater detail in appendixes. In spite of defects which close students know exist in its materials, the "budget" is the product of immense progress by economists in knowledge of essential facts regarding the national economy and of much penetrating economic analysis in a sustained and large-scale effort begun nearly thirty years ago.[5] The success of the Employment Act will depend in no small part on how effective consideration of the economic budget proves as an approach in economic education. The congressional mandate expresses a considered view that the economic budget summarizes the main economic facts deserving public consideration. There is a strong body of opinion also in its favor for classroom instruction. One expression, coinciding remarkably in time with transmission of the *Economic Report of the President*, appeared in an article on "The Teaching of Economics" in the London *Economist*,[6] which suggested: "What seems to be required is some fruitful combination of the analytic and descriptive approaches. . . . A suitable starting-point might be the National Income, its definition, size, and problems of its evaluation." For the American teacher of economics to whom such an approach appeals, the *Economic Report of the President* offers opportunity to deal at the same time with matters of the greatest immediate national importance.

[4] E. G. Nourse, "Economics in the Public Service," in the *Proceedings* of the American Economic Association, *Am. Econ. Rev.*, Vol. XXXVII, No. 2 (May, 1947), pp. 21-30.

[5] The origins are even earlier, but continued studies on a large scale may be said to have begun with initiation in 1920 of the national income investigations of the National Bureau of Economic Research.

Some student of the history of economic thought should undertake soon an analysis of the place of national-income studies in the development of modern economic thought. The subject offers opportunity for an illuminating exposition of the interplay of deductive thinking and quantitative investigation which might contribute substantially to our understanding of the problems of method in economics.

[6] January 4, 1947, pp. 5, 6.

In the first *Economic Report of the President* one may suspect some evidence of a weakness that could prove fatal unless vigilantly guarded against. Its recommendations seem to read a little too much like a political party platform.[7] The report, it must be remembered, is that of a party leader as well as of the Chief Executive, and the Economic Advisers hold office at his pleasure. Exposure of the Council and of the Economic Report to the risk of use for partisan political ends, though probably necessary, is a major hazard to the success of the Employment Act. Every effort must be made to keep the Economic Report above party politics.

HOLBROOK WORKING[*]

[7] It is mainly from the recommendations for a long-term program that I get this impression, and I wonder if they might not better have been less numerous, or reserved for a separate presidential message to Congress.

[*] The author is professor of prices and statistics and economist in the Food Research Institute, Stanford University.

## The Nathan Report and Its Critics

The Nathan Report[1] advances three theses for wages in 1947:

(1) That the country requires a *national* (instead of piece-meal) *wage policy* in 1947.

(2) That "the national interest requires a major general increase in wage rates" in 1947 as the basis for such policy.

(3) That such "further substantial wage increase without a general price increase is possible, justifiable and essential."

To support these conclusions, the authors undertake a comparison of wages for January, 1945 and October, 1946 and profits for 1936–39 and at a projected 1947 annual rate. The wage comparisons are further broken down to cover groups within manufacturing industry as well as others in non-manufacturing. The profits data are grouped only for all corporations and for manufacturing corporations. The chief inference is that all corporations taken collectively could raise wages 25 per cent and manufacturing corporations 21 per cent and yet maintain their average 1936–39 rate of return (after taxes) on current net worth, without increasing prices.

The authors limit their chief recommendation to a "major general increase," for which these figures may be guides. The figures, they observe, "do not apply exactly to any individual industry," and "the profit and wage picture must be considered separately in each wage negotiation."

The wage comparisons are intended mainly to *justify* a general increase which the authors believe to be proved *possible* at December, 1946 prices. To make the justification, they choose as a base period for wages January, 1945, when average gross hourly and average weekly earnings of production workers in manufacturing had attained their all-time highs. Choice of this base rests, apparently, on the assertion that even then wages did not make possible the attainment of "the American standard of living."

Between January, 1945 and October, 1946, average gross hourly earnings

[1] *A National Wage Policy for 1947* (Washington, Robert R. Nathan Associates, 1946). The report was privately prepared at the request of the CIO.

in manufacturing (production workers) rose from $1.046 to $1.132 (8.2 per cent), while average weekly earnings fell from $47.50 to $45.83 (3.5 per cent). The index of consumer prices advanced 16.8 per cent. Deflation of the October, 1946 earnings figures, the authors find, requires an 8 per cent rise in hourly earnings and a 21 per cent rise in weekly earnings to restore January, 1945 real earnings. Price increases to the end of 1946 require corresponding "corrective" increases of 10 per cent and 23 per cent, to restore *parity* with January, 1945.

The report acknowledges that low-wage workers made actual gains during the period, and that the decline in weekly earnings is associated with an 11 per cent cut in hours worked. Neither fact qualifies the conclusion, the report contends. It also asserts that the 8.2 per cent rise in gross hourly earnings measures the true rise in hourly labor costs in the period, rather than the 18.5 cents increase (1946) made in settlement of major disputes last year. Most workers got much less than 18.5 cents. And despite the 8.2 per cent cost increase, prices of manufactured products at wholesale rose 27 per cent over the period. Thus, the authors conclude, the 1946 wage round did not cause the price increases of the period. They make no allowance for the following factors: the accumulated rise in unit labor costs from 1939 to 1945 (40–50 per cent for selected manufacturing industries); the effect of stoppages upon deferred demand; and the effect of large general increases in primary industries—transportation, coal, basic steel—upon production and wage costs elsewhere.

The authors use apparently official figures for the 1936–39 base period of the profits comparison (limited to corporate enterprise). These are contrasted with an annual projection for 1947, derived by Nathan from his estimate (by a method not set forth) for the December, 1946 quarter. Before taxes, all corporate profits are expected to increase over the period from $5.3 billion to $24.8 billion (366 per cent). For manufacturing corporations, the change will be from $3.2 billion to $13.2 billion (313 per cent). After taxes, the increases will be from $3.95 billion to $14.9 billion (277 per cent) for all corporations, and from $2.5 billion to $7.9 billion (216 per cent) for manufacturing corporations.

On these figures, profits after taxes as a percentage of total sales value will rise from 3.2 per cent to 5.7 per cent (all corporations) over the period, and from 4.3 per cent to 5.6 per cent for manufacturing alone. Further, in 1936–39 all corporations earned (after taxes) 2.9 per cent on net worth; manufacturing alone, 6.9 per cent. On the 1947 estimate, respective rates of return on current net worth will be 9.1 per cent and 11.6 per cent. Net worth, the report states, is currently inflated by large holdings of cash and other assets unrelated to the business.

The authors then propose to transfer to wages, at current prices, that amount from expected 1947 profits that will lower the rate of return (after taxes) on net worth to that prevailing in 1936–39. For manufacturing this would permit a $5.1 billion increase in production worker payrolls or 21 per cent, leaving $4.7 billions net profit or a 6.9 per cent return on current net worth. For all corporations, the transfer would involve $17 billions to

payrolls, or "at least" 25 per cent, with remaining net profit (as estimated) still to yield 2.9 per cent on current net worth.

This is the manner, buttressed by additional statistics, by which the authors sustain the argument that a major general increase is justifiable and possible. They find such increase also to be desirable and essential apparently on the ground that, *since* current profits are "excessive," failure to convert a substantial portion to wages (with employment and prices, of course, constant) will mean inadequate consumption and hence deflationary collapse.

Mr. George Terborgh, research director of the Machinery and Allied Products Institute, a trade organization, has attacked the Nathan Report,[2] chiefly on the grounds that profits are not excessive and that a general wage increase without a general price increase is neither possible nor desirable. Instead, he favors holding the wage line at present levels, save for piecemeal increases to a few laggard groups (schoolteachers, municipal employees).

He finds on estimate that present profits of all corporations are below that percentage of national income attained in former years of high employment—the "normal" is 9–10 per cent as against less than 9 per cent on Nathan's own $15 billion (after taxes) 1947 projection, with probable national income at $170 billion. But Terborgh would cut $3 billion from Nathan's figure, to allow for temporary profits emerging from the lag of materials costing behind the 50 per cent rise in raw materials prices in the last half of 1946. He would knock out an additional $1 billion for inadequate depreciation charges, which largely fail to allow for higher current replacement costs. The adjusted net profit of all corporations in 1947 will then be $11 billion, or only 6.5 per cent of expected national income, well below "normal."

Terborgh finds the January, 1945 wage base conceals the gains in real hourly and weekly earnings in manufacturing during the large expansion of 1939–44. On a 1939 or 1941 base, Nathan's case collapses. Finally, Terborgh can find no special case in equity for production workers in manufacturing, as compared with other wage earners, if 1941 is used.

He then argues that the proposed increase would not actually capture profits, because marginal firms would raise prices or withdraw—either way, prices will rise, output is likely to fall, and intramarginal firms will preserve their margins. Wage increases, he contends, come not out of profits but from production increases. A general increase now (wages) would only warp further the distribution of wage income in favor of organized labor, chief beneficiary in 1946, and at the expense of laggard groups that were and again will be the losers.

Ralph W. Robey, chief economist of the National Association of Manufacturers, has also entered the fray, with a brief and nontechnical rebuttal to the Nathan Report. He questions Nathan's ability as a guesser and objects to the double bases for the comparisons. He notes the variability of

[2] George Terborgh, "An Analysis of the Nathan Report entitled 'A National Wage Policy for 1947'," *Machinery and Allied Products Inst. Bull.*, No. 1965 (December 19, 1946).

profits among and within industries and challenges the use of global totals in wage determination. He also contends that Nathan's proposal would raise prices. The alternative is to hold the wage line, letting competition and buyer resistance bring down prices.[3]

These points outline the major issues in the controversy. My comments must be brief and will mainly concern the report itself.

Wage earners generally and others with low incomes have been hurt by the recent rise in prices, although the war period as a whole has improved labor's material position. Most economists would agree to the possibility and desirability of a further advance in living standards. Many also share the apprehension that deflation lies ahead if inflationary price increases and a concomitant shift to profits continue much further. To the extent that increased wage rates can add to living standards generally, prevent deflation, and yet not provoke further inflation, they will command broad professional support. These considerations impel sympathy with the purposes of Nathan's program. However, the means proposed require careful exploration.

1. A showing that a general wage increase *could* now be made without increase of prices carries no assurance that this *would* happen. In the absence of price control, *a priori* analysis suggests generally that the increase in marginal costs of the single firm following a wage increase would raise price and lower output, if demand is unchanged. If demand rose proportionately and in consequence of the wage increase, which is relatively unlikely, output might even increase with the increase in price.[4] Even an oligopolist with a kinked demand curve and a discontinuous marginal revenue function would be likely to raise price, because he would expect his rivals also to raise prices,[5] where all of them and firms producing closely competitive commodities are undergoing a major general wage increase. To escape the deduction of higher prices with a general wage increase, then, one must argue that firms pay little attention to changes in marginal costs in setting their price and output policies, which seems to me generally unconvincing.

Where prices still remain under control, as with railroads and public utilities, short-run output is set by demand, it is true, and the wage increase would not immediately lead to higher prices. But even here the price fixers are supposed to allow a "fair return," and on this basis such rates have recently been increasing.

[3] Ralph W. Robey, "The Facts versus the Nathan Report," published as an undated pamphlet by the National Association of Manufacturers.

[4] For this and other assumptions underlying the CIO wage-price doctrine, see the discussion of M. F. Bronfenbrenner, "Price Control under Imperfect Competition," *Am. Econ. Rev.*, Vol. XXXVII, No. 1 (Mar., 1947), pp. 118–20.

[5] In the oligopoly case, it is argued that the firm would not raise price and curtail output with a rise in marginal cost unique to the firm, because it will consider the probable effects of its rivals' responses upon its demand curve. See Paul M. Sweezy, "Demand under Conditions of Oligopoly," *Jour. Pol. Econ.*, Vol. XLVII, No. 4 (Aug., 1939), pp. 568–73; and the interesting development by Lloyd G. Reynolds, "Relations between wage rates, costs, and prices," *Am. Econ. Rev.*, Vol. XXXII, No. 1, Suppl., Pt. 2 (Mar., 1942), pp. 275–89.

2. A logical inference is not necessarily a prediction of fact. Without official price control, what other means lie open for combining the wage increase with stable prices? (a) Self-restraint of businessmen: Nathan himself notes that it failed in 1946. (b) Public opinion: in practical terms this means buyers' strikes and involves decreased output and unemployment. (c) Disappearance of excesses of demand for certain products: where indicated to firms, by rising inventories and a decline in the new order rate, they might be "encouraged" to sustain the wage increase and keep prices constant. Something like this seems to have happened in the rubber and textile settlements. (d) A widened conception of union objectives in collective bargaining: the union would stipulate (and have to obtain) the condition that prices must be unchanged despite the wage increase. Even so, the firm could maximize by cutting output; hence the union, to avoid unemployment, must also stipulate that output cannot be decreased. For cases of imperfect competition, a union that consistently followed these objectives would even be doing police-work in the public interest. On the other hand, the larger implications of this kind of reorganization in the economy are not reassuring. And it is hardly likely that American management is now willing to bargain about such matters.

The only factor among these that seems to me promising is the prospective disappearance of excesses of demand. But this very development will also increase the resistance of employers to wage demands on the order of 20–25 per cent. On the whole, the prospects are more likely that prices would increase under Nathan's policy.

3. Nathan's proposal would not be available to the majority of wage earners, for lack of organized bargaining power. They would face a further reduction in real wages. This development, and the prospect that investment plans would be curtailed with a new wage-price round, might well bring on a serious recession. This is hardly compatible with the general increase in living standards that is sought.

4. It is doubtful wisdom, in the long run, to attempt to finance wage increases by a transfer from total profits, because of the impairment of saving and capital formation. Capital formation is invited by prospective profit; saving in part depends upon realized profits, either retained for use in internal financing or paid out as returns to ownership. Capital formation leads to increased capacity and efficiency, making possible higher money and real wages. I venture to say that this country, and the world, require a high rate of capital formation indefinitely, if a more abundant life is to become a reality. It is wiser to concentrate upon keeping capital formation going than to aim at a secular decline in its relative importance.

This does not mean that the present volume of profits, temporarily inflated as it is by inventory appreciation and obsolete depreciation charges, should not be reduced. But Nathan's proposed $17 billion reduction from an estimated $25 billions for all corporate enterprise is too large. In acknowledging the social function of profits in a price system, one is not obliged, however, to defend cases of differential profits arising from imperfect competition.

5. Profits of individual firms frequently are an element in collective bargaining—but only one among many. It is dangerous to link wage levels to a price and profits parity standard, as Nathan does. The use of a global total invites demands for increases that are entirely too large for price stability. No economy can support annual general increases of 20–25 per cent, and it borders on the irresponsible to encourage organized labor to believe otherwise. Furthermore, if the wage level is tied to profits and prices, the prospects of cumulative inflation and deflation will be greatly increased.

6. As a technical matter, Nathan's "double standard" for the wage-profits comparisons is open to objection. I find no justification for the two base periods together. Had 1939 or 1941 been used for both comparisons, the 20–25 per cent estimate could not have been attained. The wage base ignores the increase of real wages prior to January, 1945 while magnifying the deflationary effects of reconversion (reduced overtime and lower weight of high-wage war industries). In contrast, the 1936–39 profits base magnifies the unsurprising shift to profits that occurs with expansion, though this base is defensible if wages were also so compared. As it is, Nathan gets a "normal" wage-profit relationship by combining an inflation peak in money wages with a depression average for the rate of profit, without offering support for this amalgam. Moreover, he does not correct his 1947 profits figure for the temporary effects of a shift to a higher price level. His whole argument rests upon the 1936–39 average as a *standard* rate of return, but his wage proposal takes for granted that temporary elements in current profits really reflect lasting earning power.

GEORGE H. HILDEBRAND, JR.*

* The author is assistant professor of economics at the University of California, Los Angeles.

## The Maintenance of Full Employment after the Transition Period: A Rejoinder to Mr. Woytinsky's Note

Mr. Woytinksy published in the September issue of this *Review* a note criticising my article "The Maintenance of Full Employment after the Transition Period. A Comparison of the Problem in the United States and the United Kingdom."[1] I find it necessary to reply to this criticism for two reasons: (a) it is partly based on misrepresentation of my article, (b) it raises certain points of general interest which should be elucidated.

Mr. Woytinsky starts from the now fashionable gibes at the formula $S=I+E+D$ where $S$ stands for savings, $I$ for net private investment, $E$ for export surplus and $D$ for deficit of the budget of public authorities. The "tautological formula," he observes, does not provide "any insight into the mysteries of the modern economy." By "tautological" he probably means that the formula holds good in all circumstances. Now it is useful to remember that not so long ago this *was* a "mystery" to many economists who believed that the equation held good only if the rate of interest was at its

[1] *International Labour Review*, November, 1945.

"equilibrium level"; (this really meant that at a *given level of employment* the equation would be fulfilled only at a certain level of the rate of interest while the process of equating $S$ to $I+E+D$ through *changes* in employment was not considered).

Mr. Woytinsky starts now the criticism of what he calls my "models." Strangely enough he classifies as "models," *inter alia*, a comparative analysis of the national product and its components in the United States in 1940 and in the United Kingdom in 1938. This analysis leads me to the conclusion that the problem of employment was already before the war more difficult in the United States than in the United Kingdom because the percentage of income saved at the same degree of employment of the available labour force was substantially higher and because this percentage was not normally offset by a correspondingly higher ratio of private investment plus export surplus to the aggregate income. Mr. Woytinsky maintains that this conclusion is based merely on the fact that the sum of the budget deficit and export surplus was 4 per cent of the aggregate income in the United States in 1940 and 3.4 per cent in 1938 in the United Kingdom, "although this trifling disparity falls within the margin of error of the two computations." Now this is a complete misrepresentation of my argument. After the tabular comparison of the national product and its components (from which Mr. Woytinsky took the above figures relating to the sum of budget deficit and export surplus) there is the following passage:

It seems at first glance that the position with regard to maintaining the existing level of employment without Government intervention by means of a budget deficit was less favourable in the United Kingdom than in the United States. Indeed the budget deficit in the latter country was 2 per cent. of aggregate income, while in the former the corresponding figure was 4.9 per cent. A closer examination shows, however, that the reverse is true. Both the change in the value of working capital[2] and the export surplus were at an unusually high level in 1940 in the United States. A correction for these "abnormalities" would reduce the level of private investment plus export surplus from 10.5 per cent. of aggregate income to a level not substantially exceeding 7 per cent. On the other hand, the change in the value of working capital[2] and the export surplus were particularly low in 1938 in the United Kingdom, where the correction for abnormality would raise the proportion of private investment plus export surplus to aggregate income from 3.3 to something like 6 per cent. As a result the budget deficit necessary to maintain the existing level of employment would be of the order of 5 per cent. of aggregate income in the United States and 2 per cent. in the United Kingdom. This difference would be due to the fact that, while the 'corrected' level of investment in relation to aggregate income was assumed above to be only a little higher in the United States than in the United Kingdom, the percentage saved out of income was substantially larger in the former than in the latter country: 12.5 per cent in the first case (in 1940) as compared with 8.2 per cent in the second (in 1938).[3]

[2] Reflecting not only the quantitative change in inventories but the change in the basis of the valuation as well.

[3] *International Labour Review* (Nov., 1945), pp. 455–56.

The conclusion of my analysis to which Mr. Woytinsky refers is based on this passage and on the fact (p. 453) that the percentage of unemployed in relation to the available labour force was higher in the United States in 1940 than in the United Kingdom in 1938.

Mr. Woytinsky maintains further that my analysis does not take into consideration "the economic structure of the two countries and business conditions in the selected years." What he means by difference in "economic structure" that is relevant to my conclusions, I do not know. As to the selection of years, the matter *is* discussed on p. 453. And the difference in "business conditions" is accounted for in the passage quoted to which Mr. Woytinsky chose not to refer. Mr. Woytinsky was, to put it mildly, not very punctilious in reviewing this part of my article.

Let us now consider Mr. Woytinsky's criticism of the second part of my paper. In this I compare the financial problem of maintaining full employment after the transition period in the United States and the United Kingdom. As the basis for this comparison I used for the United States, Mr. Smithies' forecasts of the national product and its components in the United States in 1950 (published in *Econometrica*, January, 1945); and for the United Kingdom my own forecast of the national product and its components in 1951 (published in the *Bulletin of the Oxford Institute of Statistics*, December, 1944). Mr. Woytinsky blames me for using uncritically Mr. Smithies' estimates: "Instead of any proof he refers simply to an earlier article of Mr. Arthur Smithies on "Forecasting Post-War Demand," an essentially mathematical article in which general methodological considerations were illustrated by a series of tentative deliberately experimental projections. Whether valid or not, these projections reflected a definite phase of the discussion which was in progress at that time among technicians in the United States but were not intended as a prophecy. To Mr. Kalecki, however, these casual figures become a prediction of the economic structure of post-war America and the foundation—the sole foundation—of the policy it should follow to maintain full employment!" If Mr. Woytinsky looked carefully through the article of Mr. Smithies—or that of another "technician," Mr. Mosak, published in the same number of *Econometrica*—he would see that the articles were not intended as mere exercises in mathematical statistics, but that the authors treated their forecasts sufficiently seriously to draw from them certain conclusions with regard to government full employment policy. (See *Econometrica*, January, 1945, pp. 13 and 37.) Mr. Smithies' figures did not seem to me "casual" for three reasons: (a) his method seemed to me fairly reasonable although I had certain objections in point of detail; (b) a great majority of "technicians" who dealt with the same problem arrived at figures of the same order of magnitude; (c) an estimate made by my own method also confirmed roughly Mr. Smithies' figures.[4] However rough may be Mr. Smithies' estimates, I considered and still consider them a sufficient basis for the conclusion deprecated by Mr.

[4] I could not include this calculation in my article because it would then become too technical for the *International Labour Review*. I presented it in my lectures at the University of Chicago in March, 1946.

Woytinsky somewhat pompously in the passage quoted—that the United States are unlikely to be able to maintain full employment after the transition period without having on the average a substantial budget deficit.

It is against this thesis that Mr. Woytinsky now delivers his attack. It follows from Mr. Smithies' estimates for Variant B–40 hour week, which I consider most likely, that in the post-transition period saving at full employment would exceed such rate of private home investment that may be maintained one year after another by 15 billion dollars; and thus to maintain full employment this "gap" has to be filled by export surplus and the budget deficit. Mr. Woytinsky writes:

> Let us examine the assumption of an over-saving of 15 billion dollars in post-war America. History shows that, except during wars and deep depressions, savings in the United States averaged somewhat lesss than 10 per cent of the national income and were roughly in balance with its demand for new capital. If this pattern should change drastically in post-war America, there must be some reasons for such a change. What are these reasons? Will veterans returning home from foxholes lose their "propensity" for decent dwellings, and will building construction stop? Will the nation shift to the austere consumption habits of the eighteenth century? Will people move from cities to rural areas, strongholds of thriftiness and saving? Will technical progress be brought to a standstill?
>
> None of these assumptions seems very probable. Observations point rather to very different trends. New, higher consumption habits were acquired by workers during the War boom. New habits were brought back to the country by the returning veterans. The tide of marriages and births resulted in an unprecedented demand for new homes, a demand which cannot be satisfied in three or five years. The deferred demand for durable goods and accumulation of war savings open new markets for production. The new technology of light metals and plastics and the progress of electronics generate new outlets for investment. The progress of aviation makes urgent the task of adjusting our urban areas to the new means of transportation. The huge financial reserves of business concerns, farmers and public agencies make private construction and public works possible on a scale never dreamed of before. The United States has emerged from the war as the first economic power in the world. The state of international security demands considerable outlays for defense. The nation is facing a tremendous expansion of individual and collective consumption and spending.

I quote these two passages in full because they are fairly typical for the "optimistic" approach to the long-run employment problem in the United States. I therefore consider it useful to examine the argument in some detail.

1. With regard to the ratio of saving to aggregate income, it is not correct to compare this ratio at full employment with the prewar average saving ratio even if deep depressions *are* excluded. For even then the corresponding average prewar employment is far from the full employment level. The comparison is improved if a period of high level of employment is considered, for instance, 1923–29. Now in this period the average ratio of savings (including undistributed profits) to aggregate private income (inclusive of undistributed profits, after taxation, and inclusive of so-called transfer incomes) was about 11.5 per cent. In relation to national income

(which represents private incomes exclusive of transfers but before direct taxation), this ratio would be about the same as against 10 per cent, which is Mr. Woytinsky's figure. It should be added still that in 1940 the ratio of savings to aggregate private income was 12 per cent and in 1941, which was the first year of nearly full employment after the great depression, about 20 per cent. It is true that in the latter rearmament was already on a large scale, but no limitations on consumption of any sort had yet been imposed. In the light of these figures the saving ratio 16.5 per cent which I obtain in my article from Mr. Smithies' forecasts does not appear to be fantastic. (I shall still deal with this subject below.) But even on the assumption of the saving ratio at 1923–29 level (11.5 per cent) and the figure of 152 billion dollars of aggregate private income, I should have arrived at 17.5 billion dollars for savings (as compared with the figure of 25 billion dollars given in my article). With private investment assumed at 10 billion dollars, this would still leave an "oversaving gap" of 7.5 billion dollars.

2. The statement that savings, except during the wars and deep depressions, were roughly in balance with demand for new capital is irrelevant to our problem. It probably implies that except during wars and deep depressions budget deficits and export surpluses were on the average of no great significance and, nevertheless, the average level of employment was at a fairly high level. As stated above, this level was definitely short of full employment; of course it was not low either, but how could it be if Mr. Woytinsky cuts out deep depressions?

3. If it is assumed that after the transition the saving ratio at full employment will be higher than at prosperous periods before the war, say, 16.5 per cent as compared with 11.5 per cent, it does not mean in the circumstances an increase in thriftiness. For Mr. Smithies' forecast implies a considerable rise in consumption per head as compared with prewar and the increase in the savings ratio is due not to reduction in consumption out of a given income but to the fact that consumption increases in slightly lesser proportion than income. (If the saving ratio increases from 11.5 per cent to 16.5 per cent the rise in consumption falls short 5 per cent of the rise in income). In this context Mr. Woytinsky's reference to the return to eighteenth-century austerity may be considered nothing but a sign of his deeply emotional attitude to the problems in question.

There are, I think, some plausible reasons for the full employment saving ratio after the transition period being higher than before the war (in 1923–29 or 1940). A large part of savings is made up in prosperous periods of corporate savings (undistributed profits) and savings out of higher- and middle-income brackets. Now in a state of permanent full employment the utilization of equipment is likely to be higher than in 1923–29 or in 1940. This will be reflected in the relation of profit to capital and will result in a considerably higher percentage of profits going to corporate savings and correspondingly lower percentage going to dividends. Further, real incomes will increase considerably as a result both of fuller employment and of a rise in productivity. This applies to high incomes as well and here such a rise may well lead to a higher proportionate increase in savings than in con-

sumption. However, as shown above, substantial "oversaving" will be left in Mr. Smithies' "model" even if the saving ratio is assumed at the level of 1923–29 or 1940. (Mr. Woytinsky mentions as a factor tending to depress the future saving ratio the fact that workers got used to higher consumption during the war. Even if granted that this would have any repercussions in the future, the influence of this factor upon the saving ratio is bound to be small because the workers' contribution to total saving is of no great importance.)

4. I agree with Mr. Woytinsky that the extra demand for houses will continue into the 'fifties. This factor has been taken care of in the forecasts quoted in my article (see footnote to p. 461; also p. 8 of Mr. Smithies' paper in *Econometrica*). I disagree, however, that the same is true of deferred demand for durable goods which, I think, is likely to be exhausted by 1950.[5] The same is true probably of the demand of industry for plant and machinery[6] even if in addition to arrears during the war we take into consideration the influence of new technological developments (innovations will partly overlap with the satisfaction of deferred demand for investment).

5. Mr. Woytinsky's reference to *public* investment as a factor in sustaining a high level of employment in the 'fifties is rather puzzling. If he assumes that public investment is financed by borrowing, it contradicts all his argument which is directed against the necessity of public borrowing for the maintenance of full employment. If, however, public investment is financed by taxation, its stimulating effect upon employment is very much reduced and it has to be on an enormous scale to constitute an important factor.

Mr. Woytinsky starts next his final attack on "models." (Incidentally, this term has not been used in my article, but to Mr. Woytinsky, I seem somehow to stand for "models and the like.") He stresses that "the controversy in interpreting historical trends cannot be solved by tricky 'models' which postulate in advance a definite pattern of development" and, he maintains that his own "projection," showing that the situation in 1950 will be "inflationary" rather than "deflationary," is based on an "appraisal of the prevailing trends in our economy." To me his "projection" is as "tricky" a "model" as any other forecast. He differs from other "model builders" only by his set of assumptions which does not impress me as particularly well founded. He assumes for his 1950 model a low current saving ratio which is based on a crude and, as I tried to show above, erroneous extrapolation of prewar trends. Also, other model builders arrive at their saving ratios by extrapolation of prewar trends and, although I have certain objections against their methods, they seem to me still much more reasonable than that of Mr. Woytinsky. Mr. Woytinsky assumes further that in 1950 "4 billions of war savings will flow back into consumption." Other "model builders" are by no means oblivious of this possible effect, but they assume that by 1950 the effects of "deferred demand" will be exhausted, which again seems

[5] *Cf.* J. Steindl, "Post-War Employment in the U. S. A.," *Bull. of the Oxford Institute of Statistics* (Sept., 1944). The *National Survey of Liquid Assets*, Board of Governors of the Federal Reserve System, points to the same.

[6] *Cf.* J. Steindl, *ibid.*

to me quite reasonable. It is thus really not clear why Mr. Woytinsky claims a monopoly for basing his "projection" on an "appraisal of the prevailing trends in our economy."

M. KALECKI*

* The author is assistant director of the Economic Stability and Development Division of the U.N.O. The views expressed in this note are his own personal opinion and do not necessarily reflect those of the agency with which he is associated.

## Interest-Free Deficit Financing and Full Employment

Some of the arguments in Professor Poindexter's criticism of deficit-financing *via* quasi-free bank credit in the June, 1946 issue of this journal[1] are tenable only under conditions of sustained full employment. These arguments do not apply in a situation of actual or impending mass unemployment and under-utilization of resources, which is the only normal peacetime situation in which deficit financing is likely to be extensively used.

Professor Poindexter, for example, finds a justification of government interest payments to the banking system in "the cumulative real cost of vesting in the government command over present as against future goods. In other words, the costs of bank credit creation are essentially the same as those borne by the individual saver-lender."[2] This may, perhaps, be conceded under conditions of continuing full employment, when government expenditures effectively divert to the government goods and services which would otherwise have been allocated to private users, and force private users to postpone a utilization that would otherwise have occurred immediately. If, under such conditions, government expenditures (*e.g.*, for defense, or for capital projects) are not fully covered by taxation, then a good case can be made for requiring the government to borrow at interest, thereby compensating the private parties whose utilization of goods and services has been delayed.[3]

But the situation is entirely different when there is less than full employment. In such a case the creation of credit for the government's use has no "cumulative real cost" because what it vests in the government is not a "command over present as against future goods," but rather a command over goods *that would otherwise not have been produced at all.* Deficit financing under conditions of actual or incipient under-employment is socially costless because it does not take from any private users what they would otherwise have enjoyed. Rather it *adds* to their currently available output of goods and services. In fact, it will probably add to the volume of goods and services available for *private purchase*, particularly if the deficits are reached through a reduction in taxes or an increase in transfer payments, rather

[1] J. Carl Poindexter, "A Critique of Functional Finance Through Quasi-Free Bank Credit," *Am. Econ. Rev.*, Vol. XXXVI, No. 3 (June, 1946), pp. 311–23.

[2] *Ibid.*, p. 313.

[3] No comment is here intended on the ethical issue of "drafting dollars as well as men" in wartime.

than through an increase in government expenditures on goods and services.

Closely connected with the preceding point is Professor Poindexter's belief that "the necessity of 'raising' money by means of taxation or borrowing, on pain of paying interest, imposes a salutary and necessary restraint which would be lost under the proposed system of financing."[4] Again Professor Poindexter's point is clearly sound only if he is referring to a stable full-employment situation. When, on the contrary, an excess of government expenditures over government revenues is positively required to raise the level of economic activity and to prevent irretrievable waste of human energies, and possible political and social chaos, then the orthodox financial obstacles to raising the necessary funds may, if effective, be harmful and gratuitous rather than salutary and necessary. The existence of a budget deficit need not, of course, necessarily imply an extravagant increase, or indeed *any* increase, in government expenditures, but may be the result of deliberate tax reductions or tax remissions intended to enhance the disposable incomes of consumers and investors.

We may assume for the sake of argument that Professor Poindexter is correct in his contention that monetization of the *existing* national debt, whether or not combined with a 100 per cent reserve plan, would unduly curtail bank revenues and force reliance upon other, not necessarily superior, methods of financing essential banking services. But from this it does not follow that if *additional* deficit financing should prove necessary to offset deflationary tendencies in the post-transition period, reliance should necessarily *continue* to be placed on government borrowing at interest. Interest payments to banks are already so large that, as Professor Poindexter in discussing bank profits admits, "on the face of things, the rate of return realized in the last year or two may appear to be more than adequate."[5] If that part of the national debt now in the hands of banks is not diminished and if interest rates are not further reduced, then bank profits should presumably remain adequate to satisfy any reasonable requirement, assuming of course that full employment and consequently a high level of *private* borrowing are maintained. Indeed, it would be both peculiar and unfortunate if a continuing succession of depressions or wars, financed by government borrowing at interest, were found to be indispensable for the prosperity of the banking system.

Only by ignoring the effects of the proper type of deficit financing in checking an incipient depression, stimulating private borrowing from banks, and thereby sustaining bank earnings from private sources, could Professor Poindexter have arrived at such gloomy conclusions regarding the probable effects of interest-free deficit financing on bank earnings. If a condition of full or nearly full employment is maintained, bank earnings will presumably remain adequate—even if a *portion* of the increments in circulating medium required to service a continually expanding economy does not become a source of income for banks.

Professor Poindexter's final point concerns the difficulties which might be experienced as an aftermath of interest-free deficit financing if the monetary

[4] Poindexter, *op. cit.*, p. 322.

[5] *Ibid.*, footnote 10, p. 317.

supply became excessive and anti-inflationary taxes had to be imposed. It is his fear that public resistance to the necessary taxes would be greatly augmented "were it understood that the government does not have to pay interest on, or (perchance) even the principal of its debts."[6] In evaluating this argument we must remember that taxes used to make payments of interest on principal on the national debt will have considerably less anti-inflationary effect than taxes going into a retained budget surplus, and that consequently the piling up of an interest-bearing debt will increase the total amount of taxes it would be necessary to collect before tax collections began to have an appreciable anti-inflationary effect. We must also bear in mind that while the average taxpayer derives no visible current benefit from tax payments required to service a public debt, he does have a real and obvious interest in keeping down his own cost of living. If Professor Poindexter's observation that "virtually everybody objects to inflation"[7] is accepted, we need not be defeatist about the possibility of getting needed anti-inflationary taxes, once there is a reasonable degree of public understanding of compensatory fiscal policy. Until such understanding is achieved there is probably little danger that peacetime deficit financing will be carried to inflationary lengths, but there *is* grave danger that the United States may, at some time in the future, fail to resist the national, and indeed international, catastrophe of a major deflation through fear of assuming the continuing burdens which such resistance would be mistakenly supposed to entail. The government will fail to make its proper contribution to the all-important clarification of public thinking in this sphere if it is less than completely frank as to the reasons for heavy taxation in periods of excessive expenditure.

To avoid any possible misunderstanding, let me emphasize that this communication is not intended as a general defense of functional finance. No judgment has been passed on the contention, prominently identified with Professor Hansen, that a large interest-bearing government debt may have positive advantages, and no attempt has been made to demonstrate any final or overall superiority of interest-free deficit financing over other more orthodox approaches in the field of public finance. My only purpose has been to question some of the arguments against interest-free deficit financing raised by Mr. Poindexter.

EMILE BENOIT-SMULLYAN*

[6] *Ibid.*, pp. 321–22.

[7] *Ibid.*, p. 319.

* The author is professor of economics and head of the department of economics at the Associated Colleges of Upper New York.

## The Nature of Bank Credit: A Comment

The June, 1946 issue of this *Review* contained an article by Professor J. Carl Poindexter on "A Critique of Functional Finance Through Quasi-Free Bank Credit."[1] After examining what he believes to be the circumstances of

[1] *American Economic Review*, Vol. XXXVI, No. 3 (June, 1946), pp. 311–23.

bank credit creation, the author comes to certain conclusions among which are that the banks do not "unwarrantedly encroach on the government's prerogative of creating and regulating the currency" and that "the present system of government borrowing from the banks does not entail excessive or undue cost burdens for the government or the taxpayer."[2]

It is not the purpose of this commentary to argue the merits of these conclusions since they are vitiated by the largely false premises on which they are based, *viz.*, that demand deposits in commercial banks constitute the "savings" of the depositors, that these are "lent" to the banks, and that the commercial banks are only a "medium" through which this lending is effected.

It is no longer a disputed point that commercial bank credit creation, *i.e.*, the expansion of demand deposits, proceeds *pari passu* with the expansion of the ownership by the banks in the system of loans and discounts or investments; and that this results from the fact the banks *through a system process* acquire title to such earning assets through the creation of demand deposits. Contraction of these deposits, on the other hand, comes about as a consequence of the calling or maturing of loans and discounts, the sale or redemption of bank-held bonds, or the conversion of deposits into currency, or their use to buy assets from the banks.

Recognizing these fundamental relationships, it should be obvious that when a commercial bank creates a new deposit in favor of a borrower, this deposit does not represent the savings of the borrower. Nor does the expenditure of such deposits bring about any such metamorphosis. If it be assumed that the deposits thus created are spent for goods, it follows that the seller of the goods now holds assets in the form of demand deposits rather than inventory. The acquisition of demand deposits is no evidence *per se* that the savings of the owners have expanded by an equal amount, or indeed by any fraction thereof. In the above example it may very well have been true that the goods were sold at a loss, so that the owner's equity in his enterprise (one real evidence of savings) actually diminished.

The further utilization of these deposits by their subsequent owners does not alter the validity of these conclusions, nor is their validity impaired by the fact that the demand deposits may have been created as a consequence of the expansion of a bank's investments rather than its loans and discounts.[3]

Any correct appraisal of the credit-creating activities of commercial banks should be premised upon the recognition that only a part of demand deposits represent "savings" and that the great bulk of these deposits simply reflect the fact that the owners prefer, or find it necessary for one reason or

[2] *Ibid.*, p. 323.

[3] The relationship between investments and deposits received later recognition than the more obvious connection between loans and discounts, and deposits. It is now recognized that irrespective of the method employed by a particular bank in purchasing investments, this will result (*ceteris paribus*) in an expansion of deposits in the *system*, even though from the point of view of the purchasing bank the acquisition of the bonds simply altered the nature of the bank's assets.

another, to hold a "means-of-payment" to meet accruing and accrued liabilities in this form rather than in the form of hand-to-hand currency.

But while the creation and expenditure of demand deposits does not necessarily reflect individual savings, their expenditure may, to a greater or less degree (depending on the volume of idle factors of production at the time and the use to which the deposits are put) result in a "forced" saving being imposed upon the community. It is true, therefore, as Professor Poindexter maintains (p. 313) that there are costs of bank credit creation, but the fundamental difference of which he fails to take cognizance is that the costs of bank credit creation are *social* costs borne by the community and in these respects involve no conscious or determinate cost to particular individuals or to the banks which created the credit. It is for precisely this reason that Professor Whittlesey[4] and others question whether the extraordinary earnings of commercial banks[5] are now justified in view of the fact that they stem from the vast and unprecedented war-deficit financing participated in by the banks.[6]

It may happen that in the process of transferring ownership of demand deposits certain owners will find from time to time that they are able to "save" a part of these deposits, but it is erroneous to conclude, as does Professor Poindexter, that these deposits, or even that element which can be regarded as savings, must be "lent" to the commercial banks if the banks in turn are to be able to lend to the government and other borrowers.

The conversion of the "saved portion" of demand deposits into any of the various forms which savings may take (other than currency or bank-held assets) has no *direct* effect on the total deposits of commercial banks. The total deposits of the system neither grow *per se* because the public voluntarily saves, nor shrink because they dissave.[7] This is not to say, however, that the total deposits of particular banks may not vary due to changes in the savings and expenditure practices of their customers. Nor is the above statement intended to imply that the nature or type of the transaction involved has no effect on the *future* volume of deposits, or that the attitudes

[4] See C. R. Whittlesey, "Problems of Our Domestic Money and Banking System," *Am. Econ. Rev.*, Vol. XXIV, No. 1, Supplement (Mar., 1944), p. 252.

[5] The net profits of member banks in 1945 were 11.0 per cent of invested capital compared with a national average for all corporations (including banks) of 7.6 per cent. See Roland I. Robinson and Caroline Cagle, "Member Bank Profits in 1945," *Federal Reserve Bulletin*, April, 1946, p. 381. Preliminary figures indicate that bank profits during 1946 will be at an even higher rate. Figures published in the November, 1946 issue of the *Bulletin*, p. 1239, reveal that during the first six months of 1946 member bank net profits (after all taxes) were 13.2 per cent of invested capital despite an increase in total capital accounts.

[6] Of the total of $90,613,000,000 of United States government obligations held by the commercial banks as of the end of 1945, all but $15,071,000,000 were acquired during the period 1939–45 (*Federal Reserve Bulletin*, June, 1946, p. 632).

[7] This assumes that depositors do not act *en masse*, that there is no alteration of conditions which would prompt a mass withdrawal of deposits, that there is no element of panic in such deposit withdrawals, and that there will be, therefore, a compensating effect in the operations of large numbers of depositors.

of depositors with respect to the use of deposits is immaterial.[8] But it does imply (with the above qualifications) that the decisions of existing depositors, whether to "lend" through the commercial banks or not to "lend" through them, has no direct effect on the lending (*i.e.*, credit-creating) ability of the commercial banks.

LELAND J. PRITCHARD*

[8] If, for example, the transfer of ownership of demand deposits is merely for the purpose of transferring title to existing properties and securities, the implications are those associated with business stagnation, but if *new* properties or *new* issues of securities are being acquired, this is evidence of increased business activity and will foster greater opportunities for the commercial banks to make safe and profitable loans and investments—and create more demand deposits. Similarly a decreased preference for cash-balances will lead to an increased velocity of deposits and will (typically) be associated with an expansion of deposits.

* The author is associate professor of finance in the School of Business of the University of Kansas.

## Price Dispersion and Aggregative Analysis

The dispersion of commodity prices in any general upward or downward movement has been recorded and analyzed by many investigators.[1] As yet, however, no study of the recent price trends of individual goods included in the Bureau of Labor Statistics wholesale index has appeared. Because of current wage adjustment and inflation problems, analysis of the 1939-46 period is of importance. The present paper briefly presents the results of an investigation into the prices of manufactured products during those years.

The manufactured or "finished" goods index contained, for 1939, a total of 611 separate commodity quotations. We have compared the individual prices of these items in 1939 (monthly average for the year) with the prices of the identical items in August, 1946.[2] That month, the latest for which data are available at the time of present writing,[3] was the first full month following the general removal of government price controls.

Of the 611 commodities listed in 1939, a total of 367 are represented "item-for-item" in 1946; comparable quotations on the other 244 products are not to be had for exactly the same items in the same markets. Those 244 commodities were, therefore, eliminated in the present study; substitute items, which the B.L.S. legitimately includes in its broader, weighted average, were not considered comparable for our more specific purposes.

Thus circumscribed, what does analysis of the 367 items show? The range of price changes is from a decline of 10 per cent to an increase of 443 per cent. Three hundred and thirty-eight goods increased in price, 11 declined, and 18 showed no change. Sixty-two prices, or about one-sixth of the total

[1] In this country, notably by Wesley C. Mitchell and Frederick C. Mills, as well as by members of governmental departments such as Labor and Commerce.

[2] The basic data were obtained from two B.L.S. sources: *Wholesale Prices, December and Year 1939* (Serial No. R.1069) and the mimeographed bulletin designated "LS 47-966; Price—542," for August, 1946.

[3] December 14, 1946.

TABLE I

| Per Cent of Price Change | No. of Items |
|---|---|
| Decline: | |
| 0– 10 | 11 |
| No change | 18 |
| Increase: | |
| 0– 24.99 | 122 |
| 25– 49.99 | 93 |
| 50– 74.99 | 42 |
| 75– 99.99 | 19 |
| 100–124.99 | 20 |
| 125–149.99 | 7 |
| 150–174.99 | 17 |
| 175–199.99 | 9 |
| 200–224.99 | 4 |
| 225–249.99 | 1 |
| Over 250 | 4 |
| | 367 |

TABLE II.—PERCENTAGE PRICE INCREASE IN 367 SPECIFIC COMMODITIES AUGUST, 1946 COMPARED WITH 1939

| Commodity | Per cent | Commodity | Per cent |
|---|---|---|---|
| Shellac | 442.6 | Fresh lamb, Chicago | 155.7 |
| Dried apples | 374.0 | Cotton toweling, New York | 155.3 |
| Lard | 353.3 | Oatmeal, New York | 153.5 |
| Cured pork bellies | 333.9 | Hams, Chicago | 151.5 |
| Rye flour | 245.2 | Lath, Douglas fir, No. 1 | 140.1 |
| Edible tallow | 217.2 | Cotton flannel, bleached | 139.1 |
| Cotton drills, gray | 210.8 | Cotton goods (percale) | 135.9 |
| Fresh pork | 210.8 | Beef: fresh, carcass, steers, Chicago | 134.9 |
| Cheese, whole milk | 207.0 | Cotton blankets | 126.2 |
| Cotton sheeting, brown (4 yds. per lb.) | 196.7 | Peanut butter | 125.3 |
| Cotton sheeting, brown (3.5 yds. per lb.) | 195.6 | Door knobs, New York | 125.2 |
| Corn meal, yellow | 195.5 | Flour, wheat, straight, Kansas City | 123.2 |
| Cotton denims | 192.8 | Lumber (Douglas fir, mill: No. 1 common) | 123.1 |
| Cotton muslin (Osnaburg, 7 oz.) | 190.5 | Fish, pickled cod | 119.9 |
| Cotton print cloth | 180.1 | Veal, fresh | 116.1 |
| Cattle feed (bran) | 179.4 | Beef: fresh steer carcass, New York | 114.2 |
| Cotton wrapping twine | 176.6 | Oleomargarine, white, animal fat | 113.0 |
| Creamery butter (Chicago, 92 score) | 175.9 | Milk: powdered, skimmed | 112.8 |
| Cider vinegar | 174.9 | Trousers: men's work, khaki | 111.6 |
| Creamery butter (New York, extra) | 171.7 | Boxboard, liner, 85 pound test, central territory | 111.5 |
| Cotton muslin (bleached, series 3, 4 yds. per lb.) | 171.6 | Glucose, 42 degree, unmixed | 110.8 |
| Wheat flour | 171.5 | Beans, stringless, No. 2 | 110.1 |
| Cattle feed (middlings) | 170.2 | Cotton gingham, 32 inch | 110.0 |
| Cured bacon | 170.2 | Boxboard, liner, 85 pound test, eastern territory | 107.6 |
| Ground bones (fertilizer) | 169.6 | Men's shirts, work | 107.3 |
| Cotton goods (flannel, unbleached, 8 oz.) | 168.4 | Cotton goods, sheeting: bleached, Series 2 | 106.5 |
| Menthol | 168.2 | Lumber, green | 104.7 |
| Cotton duck, Army | 166.8 | Cotton goods, shirting: Percale | 103.5 |
| Cotton duck, numbered | 165.7 | Blankets: Part wool | 102.6 |
| Muslin, bleached, Series 2 | 165.5 | Flour, wheat, patents, Portland, Oregon | 101.7 |
| Creamery butter (San Francisco, extra) | 161.6 | Hosiery: cotton, men's | 101.6 |

TABLE II—*Continued*

| Commodity | Per cent | Commodity | Per cent |
|---|---|---|---|
| Coke, beehive | 95.6 | Boilers: Heating | 50.6 |
| Poultry, New York | 94.7 | Butts, steel | 50.1 |
| Rice (Blue Rose) | 93.5 | Fuel oil, Pennsylvania | 49.8 |
| Cast-iron pipe | 93.4 | Book paper, mill | 49.8 |
| Lumber | 90.1 | Cylinder oil, Oklahoma | 49.8 |
| China wood oil | 86.6 | Bolts, track | 49.5 |
| Cattle feed (linseed meal) | 85.6 | Soap, washing powder | 48.9 |
| Poultry, Chicago | 85.0 | Bread, Cincinnati | 48.4 |
| Evaporated milk | 84.8 | Lead pipe | 47.6 |
| Lumber, spruce | 83.9 | Suiting, uniform serge, fine grade | 47.3 |
| Corrugating paper (eastern territory) | 82.9 | Beds: Wood | 47.3 |
| | | Children's shoes: youth's | 47.1 |
| Boxboard, corrugating paper .009, central territory | 82.8 | Arsenic, white | 46.7 |
| Wheat (standard patents, Buffalo) | 82.5 | Dining room buffets | 46.7 |
| Oil: linseed | 82.0 | Superphosphate fertilizer | 46.4 |
| Fish: herring | 80.2 | Glycerine | 46.0 |
| Locks, mortise | 79.9 | Kerosene, water white | 45.5 |
| Rice (Edith) | 78.2 | Coke, byproduct—Chicago | 45.1 |
| Oleic acid | 75.5 | Suiting—trousering, cotton warp | 45.1 |
| Crackers: Soda | 75.3 | Bread, New Orleans | 44.9 |
| Oil: Neutral, Pennsylvania | 74.4 | Soap, laundry bars, yellow | 44.7 |
| Twine: binder | 74.0 | Ironers, electric, automatic | 43.6 |
| Cotton thread | 72.6 | Men's suits, 3-piece | 43.5 |
| Shipping case, pine | 71.3 | Fuel oil: North Texas | 43.5 |
| Burlap | 71.1 | Molasses, New Orleans, fancy | 43.3 |
| Windows (2 light, pine) | 70.1 | | |
| Lumber: Ponderosa pine | 68.3 | Boxboard, chip—single manila lined #90, eastern territory | 42.5 |
| Doors, Ponderosa pine | 67.7 | Men's shoes—calf oxford | 42.4 |
| Window shades | 67.6 | Desks, flat-top | 42.3 |
| Wheat: standard patents, Minneapolis | 66.9 | Oil—neutral, South Texas | 42.2 |
| Oilcloth: shelf | 65.0 | Blankets, wool | 42.2 |
| Oilcloth: table | 62.6 | Brick, silica, standard | 42.0 |
| Men's shoes: Calf oxford | 62.6 | Men's shirts, dress | 41.1 |
| Suiting, uniform serge, medium grade | 61.8 | Cigars | 40.9 |
| Boxboard, chip No. 90, central territory | 61.7 | Bolts: stove | 40.8 |
| Cylinder oil, Pennsylvania | 61.4 | Zinc oxide, leaded grades | 40.3 |
| Soap, textile (industrial) | 60.6 | Women's shoes, black oxfords and straps | 39.9 |
| Woodscrews | 60.1 | Gasoline, Oklahoma | 39.3 |
| Coke, byproduct: Alabama | 60.0 | Coke | 39.2 |
| Clothing, men's suits | 59.7 | | |
| Castor oil, medicinal | 57.8 | Boxboard, chip, single manila lined, eastern territory | 39.1 |
| Bread (Chicago) | 57.0 | Wagon, 2-horse | 38.9 |
| Boxboard, chip No. 90, eastern territory | 56.4 | Vises, solid box, 50 lbs. | 38.8 |
| Bedroom dressers and vanities | 56.1 | Soda water (beverage) | 38.5 |
| Oilcloth, wall | 56.0 | Children's shoes: Misses', tan, oxford | 38.4 |
| Steam radiators | 56.0 | Tile: drain | 38.4 |
| Men's shoe, calf oxford | 54.2 | Soap: chips or flakes | 38.1 |
| Mattresses | 54.0 | Paint: Whiting, commercial | 37.5 |
| Bread (New York) | 53.8 | Windmills (Agricultural) | 37.0 |
| Jute, raw | 53.4 | Brick: fire clay | 36.8 |
| Quebracho extract | 53.3 | Dining room tables | 36.7 |
| Soap, chips or flakes (industrial) | 52.7 | Bread, San Francisco | 36.5 |
| Brick, front, light-colored | 52.7 | Typewriter desks | 36.2 |
| Dress goods, flannel | 52.5 | Gasoline—Natural, Oklahoma | 35.8 |
| Nails, wire | 52.3 | Thread, linen, shoe | 35.8 |
| Milk: condensed | 52.0 | Rivets; large, ½-inch up | 35.7 |
| Paint color, powdered bone black | 51.8 | Matches, factory, regular | 35.7 |
| Women's shoes: Kid, strap | 51.4 | Harness (leather) | 35.4 |
| Brick, common building | 51.3 | Kerosene, water white, series one | 35.2 |
| Soap: powdered or granulated (industrial) | 50.7 | Salt, granulated, Chicago | 34.7 |

TABLE II—*Continued*

| Commodity | Per cent | Commodity | Per cent |
|---|---|---|---|
| Brass sheets (yellow) | 34.6 | Caffeine, contract | 21.2 |
| Stearic acid, triple pressed | 34.6 | Blankets: Comforters, wool-filled, sateen-covered | 21.1 |
| Wire, yellow brass, No. 4, round | 34.4 | Grain binders | 21.0 |
| Stoves, cooking, coal | 34.2 | Augers, steel | 20.9 |
| Laundry tubs, 2-part, cement | 34.2 | Hammers, carpenters' | 20.1 |
| Coke, by-product, New Jersey | 34.2 | Lime, common building | 20.0 |
| Lavatories | 34.1 | Plug tobacco | 20.0 |
| Dining room chairs | 34.0 | Wire fence: barbed, galvanized | 19.9 |
| Office chairs, side | 33.8 | Sweet crackers | 19.6 |
| Lumber, Douglas fir, B and better, drop siding | 33.8 | Corn binders | 19.3 |
| Bedroom: beds, metal | 33.2 | Spades | 19.3 |
| Pretzels | 33.2 | Tank plates, steel | 19.1 |
| Copper sheets, hot rolled | 33.0 | Boilers: range, 30 gallons | 19.0 |
| Mutton, fresh, dressed | 32.2 | Agricultural implements: potato digger | 19.0 |
| Laundry starch | 31.9 | Agricultural implements: Feed grinder, power, burr type | 18.9 |
| Roofing, slate-surfaced | 30.8 | Tie plates, steel | 18.6 |
| Cooking stoves, oil | 30.7 | Grain threshers, large | 18.3 |
| Granulated sugar | 30.5 | Grain threshers, small | 18.3 |
| Sewer pipe | 30.4 | Harvester-threshers | 18.2 |
| Tubes, yellow brass, base size | 30.1 | Rivets, small | 18.1 |
| Paint: roof and barn, red | 29.9 | Planes, jack | 18.1 |
| Salt cake, ground | 29.8 | Agricultural implements: drill, grain, horse-drawn | 18.1 |
| Children's shoes: child's, gun metal, oxford | 29.6 | Dried fruits: seedless raisins | 18.1 |
| Cereal products, corn | 29.5 | Manure spreaders | 17.7 |
| Bedroom: springs, bed, coil | 29.3 | Batteries: dry, radio | 17.5 |
| Baked beans, 18-ounce, canned | 28.4 | Harrow: disk, horse-drawn | 17.4 |
| Wire fence, annealed, plain | 28.4 | Pipe: galvanized-steel | 17.4 |
| Tissue paper, white | 28.4 | Hoes | 17.3 |
| Solder | 28.3 | Soap: powdered or granulated | 17.0 |
| Brick, sand-lime | 27.8 | Hayloaders | 16.9 |
| Copper sulphate | 27.1 | Water closets | 16.9 |
| Chisels | 27.0 | Corn planters, 2-row | 16.5 |
| Gravel, building | 26.7 | Agricultural implements: cultivator, 1-row riding | 16.5 |
| Window glass, Single A | 25.5 | Grape juice | 16.4 |
| Office chairs: swivel | 25.4 | Agricultural implements: plow, walking, 2-horse | 16.3 |
| Cocoa, powdered | 25.3 | Agricultural implements: engines, more than 10 hp. | 16.2 |
| Soap, laundry bars, white | 25.2 | Cement: Portland | 15.9 |
| Power sprayers (Agricultural) | 24.8 | Soap: Toilet, bars or cakes | 15.9 |
| Harrows: spike-tooth | 24.5 | Agricultural implements: rake, side delivery | 15.8 |
| Plow bolts | 24.4 | Lime, building: hydrated | 15.8 |
| Concrete reinforcing bars | 24.3 | Agricultural implements: plow, tractor, moldboard, 4-bottom | 15.7 |
| Tableware: dinner sets, 100 pieces, semivitreous | 23.6 | Steel sheets: galvanized, No. 24 | 15.7 |
| Tractor: crawler | 23.3 | Agricultural implements: 2 plow tractor | 15.2 |
| Hatchets | 23.3 | Cereal breakfast foods: wheat | 15.0 |
| Wire fence: galvanized, No. 9 | 23.2 | Agricultural implements: rake, sulky (dump) | 14.9 |
| Women's shoes, colored, elk blucher | 23.2 | Creosote, oil, crude | 14.8 |
| Tableware: Teacups and saucers, white, granite | 22.9 | Bathtubs, 5 foot | 14.7 |
| Agricultural implements: mower, horse-drawn | 22.8 | Living room tables | 14.4 |
| Cutlery: carvers, 9-inch | 22.8 | Concrete blocks | 13.9 |
| Roofing: Prepared, medium | 22.8 | Potassium iodide | 13.9 |
| Cream separators | 22.7 | Ensilage cutters (silo filler) | 13.7 |
| Tableware: Plates, white, granite | 22.5 | Cigarettes | 13.4 |
| Corn picker-huskers | 22.3 | Plow, tractor, moldboard, 2-bottom | 12.9 |
| Pipe covering, asbestos | 22.2 | Plow, tractor, disk, 4-bottom | 12.8 |
| Plaster board | 22.1 | Hay forks | 12.6 |
| Spikes (track equipment) | 21.7 | Ammonium sulphate | 12.4 |
| Hand rakes | 21.6 | Tractor, 3–4 plow | 12.3 |
| Steel barrels | 21.6 | | |
| Steel rails | 21.5 | | |
| Harrows: Spring-tooth | 21.2 | | |

TABLE II—*Continued*

| Commodity | Per cent | Commodity | Per cent |
|---|---|---|---|
| Tobacco, snuff | 12.1 | Anilin oil | 4.3 |
| Salt, American, medium | 11.9 | Ternplate | 4.1 |
| Steel sheets, annealed, box, No. 27 | 11.9 | Toluene, pure | 3.1 |
| Structural steel | 11.9 | Roofing: prepared, individual shingles | 2.6 |
| Wrapping paper, manila, mill | 11.9 | Leather products: men's gloves | 2.5 |
| Soap: washing powder | 11.6 | Smoked salmon | 0.4 |
| Calcium compounds, arsenate | 10.8 | Women's leather gloves | 0 |
| Soap: cleansers | 10.7 | Coal-tar color (indigo) | 0 |
| Planters, corn, 1-row, 1-horse | 10.2 | Muriatic acid | 0 |
| Roofing: strip shingles | 10.0 | Plate glass | 0 |
| Steel boiler tubes | 9.9 | Tin plate | 0 |
| Ammonia, aqua, 26 degree | 9.3 | Gingerale, delivered | 0 |
| Linoleum, inlaid, lightweight (floor) | 9.2 | Epsom salts, U.S.P. | 0 |
| Shirt collars, soft | 9.0 | Chloroform, U.S.P. | 0 |
| Pipe: black-steel, ¾ inch | 9.0 | Aluminum sulphate | 0 |
| Floor covering: linoleum, plain | 8.8 | Coal-tar color (jet) | 0 |
| Floor covering: felt base, rugs | 8.4 | Coal-tar color (black) | 0 |
| Axes | 8.3 | Nitric acid | 0 |
| Plow, sulky, 1-bottom | 8.2 | Sulphuric acid | 0 |
| Floor covering: felt base, printed | 8.0 | Coal-tar color (brown sulphur) | 0 |
| Paint: inside flat, house, all colors | 7.8 | Soda, ash | 0 |
| Building materials: board, insulation | 7.5 | Sodium bicarbonate | 0 |
| Wire fence, woven | 7.5 | Caustic soda | 0 |
| Sinks, 8-inch back, apron, drainboard | 7.2 | Silicate | − .2 |
| Sodium compounds, sulphide crystals | 6.7 | Copperas | − .8 |
| Floor varnish | 6.6 | Sanitary cans #3 per 1,000 factory | −3.2 |
| Tile: floor, standard | 6.5 | Iodine | −3.6 |
| Paint: outside, white, flat, house | 6.3 | Corn starch, per pound, New York | −3.8 |
| Cigar boxes, cedar veneer | 5.7 | Gas, natural and manufactured | −4.0 |
| Tile: wall, glazed, white | 5.6 | Benzene | −6.2 |
| Auto body steel sheets | 5.6 | Borax crystals | −6.3 |
| Angle bars, railroad | 5.5 | Stiff collars | −7.4 |
| Paint: porch and deck, all colors | 5.4 | Anhydrous ammonia | −9.4 |
| Matches: safety | 5.3 | Calcium carbide | −9.7 |
| Milking machines | 5.2 | Plate glass, per sq. ft., 3–5 ft. | 0 |
| Paint: enamel | 4.8 | Plate glass, per sq. ft., 5–10 ft. | 0 |

number, advanced by more than 101.5 per cent; 62 other prices, by less than 10.1 per cent.

The median item shows an increase of 34 per cent. The upper quartile is 63 per cent, the lower quartile 16 per cent. The inter-quartile range thus equals nearly one and one-half times the median. The simple arithmetic mean is 53 per cent. Table I gives the distribution.[4] Table II presents the detailed list.

What significance may such variations be said to have for matters of economic policy as well as theory? I think their pertinence is fairly obvious. Such dispersion clearly emphasizes the serious fallacy of simple generalizations implying any uniform ability of employers to make substantial upward wage adjustments; it also indicates the presumptive inaccuracy of many employers' current contentions concerning their continuous need for individual price increases to permit wage increases or to maintain profit

[4] The median and quartile values given in the text were calculated from the original array, not by interpolation of the class intervals of the distribution.

margins. Regardless of individual allegations by *ex parte* groups in the present contest over price-wage policies, the fact that 20 per cent of the 367 items show price rises of more than 100 per cent since 1939 suggests that the degree of inflation in certain industries is far more marked than any general indexes can reveal, and that in others it is far less. The B.L.S. weighted index for *all* manufactured goods, for example, shows a rise of 54.1 per cent for the period in question, while the unweighted average of the increases in our 367 comparable items is 53.4 per cent. But of these 367 strictly comparable commodities, 109 products rose by more than 54.1 per cent in price, and 55 of them rose by more than double that amount.

These findings thus emphasize what thoughtful students have long known: that to the extent that cyclical strains result from maladjustments within the economy, careful attention needs to be paid to dispersions in prices, and in wage and profit rates. For in matters such as these, aggregative considerations may be extremely misleading. Economic theory requires, nay necessarily is, generalization; but fruitful abstraction, to be valid and not merely logical, must meet certain tests of specificity.[5] This is perhaps as often ignored by economists as by labor and business protagonists. The data in Table I should serve as a reminder that any overall economic index is made up of parts which may be, in fact usually are, widely divergent.

RALPH C. EPSTEIN*

[5] I made this point twelve years ago by saying that "entrepreneurs do not invest capital in manufacturing as a whole, nor are laborers employed by, or unemployed in 'industry in general.' General averages at best give only a notion of 'general drift'." (Nat. Bur. of Econ. Research, *Industrial Profits in the United States*, p. 589). To be sure, the point was not original with me; others had made it and were making it simultaneously. But since that time there has developed, on the part of many economic writers, an extreme over-emphasis on aggregative analysis. The writer does not question the utility of such analysis, provided it proceeds with recognition of the frequently deceptive nature of aggregative phenomena. This is equally true whether the aggregate generalizations relate to average data or to marginal tendencies.

* The author is professor of economics at the University of Buffalo.

## The Burden of Import Duties: A Comment

In a recent article, Earl R. Rolph has shown that under certain circumstances it is possible for import duties to do more damage to exporters than to importers.[1] This is an important point, but the presentation is somewhat confusing. The following comments are intended to clarify the problems rather than to challenge this major conclusion.

The analysis assumes constant total money income and full employment in each country, an increase in all import duties at the same time, and flexible exchange rates which adjust automatically so as to preserve an exact balance of payments without flows of gold or credit. This leads to the conclusion that the first effect of the new tariffs is to reduce the number of dollars available abroad with which foreigners could pay for our exports. It is our exporters who, through a shift in exchange rates, lose income. The

[1] Earl R. Rolph, "The Burden of Import Duties," *Am. Econ. Rev.*, Vol. XXXVI, No. 5 (Dec., 1946), pp. 788–812.

rest of the analysis has to dc with the effects of the exporters' attempts to shift the incidence of this loss by restricting exports and by competing with other resources in the home markets. The assumptions are acceptable as a first approximation. Over a long period of time tariffs may actually be equivalent to an appreciation of the currency. Eliminating the assumptions of perfect competition and of full employment would necessitate allowing for other effects, such as foreign trade multipliers, but a long-run analysis abstracting from these effects may be permissible in the process of making a preliminary theoretical analysis.

The difficulties arise from the peculiar definition of "burden." "Burden" is defined ***not*** as the net real loss to a country as a whole, ***nor*** is it defined as the loss to a group within a country through a redistribution of income at home, ***nor*** this loss plus the net overall loss. As Rolph uses the term, "burden" means a sort of monetary "incidence" of the tax, limited to the yield of the tax. If there is no yield, there is no burden.[2] On this definition, a prohibitive import duty would put no burden on the former importers; and the burden of a sales tax, if the elasticity of demand happened to be unity, would be entirely on the seller. Most analyses of the effects of tariffs have not been made by the use of this sort of definition of burden. Indeed, it is a definition which is quite confusing, if not meaningless.

The impression that Rolph's conclusions are at variance with those of Mill and the neo-classical economists is misleading. They are talking about different things. The neo-classical economists were concerned with the net real exploitative effects of tariffs for the country as a whole, and with the redistribution of income at home. Rolph is talking about the "burden" which turns out to be a kind of monetary redistribution at home caused by the tariffs as a tax without regard to how the government spends the money or to the real effects on welfare. Rolph's objection to assuming that tariffs are collected in kind is also a result of this confusion. If, as with the neo-classical economists, the analysis is attempting to estimate the net effect on the total real income of the country as a whole, then it doesn't matter how the duties are levied, nor how the government spends the money, except as the latter may affect production. Any impression Rolph gives that the neo-classical economists were ***wrong*** is of course erroneous. They certainly did prove that a country can take advantage of its monopoly influence over its import and export prices to exploit another country.

The objection to including consideration of how the government spends the tariff revenue (of which other taxpayers are relieved) results from the fact that "burden" in Rolph's incidence sense does ***not*** mean the loss to certain groups through redistribution of income at home. Although Rolph's main conclusion has to do with this redistribution, his analysis takes account of only part of it, and only in a monetary sense. All in all, the new definition of burden is not a very useful one, and Rolph's important conclusions could have been arrived at without it.

There is one inaccurate statement in a comment on Kaldor: " . . . his

[2] *Ibid*., p. 805, n. 34.

argument is not general. It may pay a country to subsidize exports and worsen its real terms of trade. On Mr. Kaldor's diagram (*ibid.*, p. 379), if France's reciprocal demand lies under OF′ before any tax, it would pay France to subsidize exports."[3] Presumably Rolph means $\pi$, not OF′, yet it is easily shown by simple geometry that, apart from transport costs and tariffs, it is impossible for France's reciprocal demand curve to be under this point. At most there might be situations where it would pay to reduce tariffs.

The peculiar definition of "burden," and the erroneous impression given that the neo-classical economists were wrong should not, however, be allowed to conceal the fact that there is a real contribution in the article: a pointing-up of the fact that after exchange rates have adjusted to the tariffs, the redistribution of income at home may injure exporters much more than importers. This effect is, of course, *in addition to* the net real exploitation of the foreigners, and it is not unknown to other writers. It might even be possible to show that the more effective the exploitative effects of tariffs, the more the domestic redistribution of income injures exporters rather than importers.

JAMES N. MORGAN*

[3] *Ibid.*, p. 803, n. 30.

* The author, now at Harvard University under a Research Training Fellowship from the Social Science Research Council, will join the staff of the department of economics of Brown University in the fall.

# MEMORIAL

## Edwin Francis Gay

Edwin Francis Gay, the first American economic historian to win international recognition, was born at Detroit on October 27, 1867, and died at Pasadena on February 8, 1946. After studying in preparatory schools in the United States and Switzerland, Gay attended the University of Michigan, from which he took his A.B. degree in 1890. Seeking the comprehensive training that he was to advocate for his students, often to their distress, Gay went to Germany in 1890 to begin twelve years of intensive study and research. He attended the Universities of Leipzig, Göttingen, Zurich, and Berlin; read widely in the British Museum; and delved into the great manuscript collections of the Public Record Office. During vacations he roamed over Great Britain and the Continent to see the landmarks of civilization and to acquire first-hand knowledge of agriculture, industry, and trade. A broad program of courses and seminars in theoretical and applied economics and in political, social, ecclesiastical, and economic history led to the Ph.D. degree from the University of Berlin in 1902. Gay also studied Italian and Latin, and he acquired in Europe the fluency in French and German that he never lost. One wonders whether since the days of Aristotle there has been such thorough preparation for a scholarly career.

Gay reached Leipzig in time to attend the last lectures given by Wilhelm Roscher, the founder of the Old Historical School. Gustav Schmoller, the founder of the New Historical School, was his major professor at the University of Berlin and the director of his dissertation. Articles based upon the dissertation, entitled "Zur Geschichte der Einhegungen in England," revised accepted opinions concerning the nature, extent, timing, and significance of the English enclosures.

In 1892 Gay married Louise Fitz Randolph, an ideal companion in his travel, study, and widely varied career. She was, I believe, the first woman to attend lectures at the University of Berlin. The shock from losing her probably hastened Gay's death a few weeks later.

Beginning with the rank of instructor, in 1902 Gay succeeded Ashley in the chair of economic history at Harvard, the first ever established in this country. He was promoted to assistant professor at the end of one year and to professor after three years. In 1908 President Eliot chose Gay as the first dean of the Harvard Business School. Only his strong conviction that business is a profession for which one needs graduate training similar to that given in law and medicine induced Gay to turn from scholarship, teaching, and the guidance of research to university administration. Demonstrating the great organizational capacity that marked his entire career, Gay put the Business School on its feet, financially and scholastically, and indelibly colored its subsequent policies. He not only secured the advice of outstanding business men on educational problems but enlisted their cooperation in placing the graduates in positions that permitted full utilization of their

training. He resigned his deanship in 1919 to become president of the *New York Evening Post;* became editor as well in January, 1920; and held both positions until January, 1924. He widened the appeal and increased the circulation of the *Post*, which had been limited largely to financial circles in the metropolitan district.

In the meantime, during the first world war, President Wilson had called Gay to Washington to work upon problems of civilian consumption and to devise means for increasing the supply of ships available for military use. At one time or another he served as director of the Division of Planning and Statistics of the United States Shipping Board and as head of the Imports Bureau of the War Trade Board. Through scientific reduction of unessential imports, Gay made nearly a million additional tons of shipping available for war purposes at one of the most crucial stages of the German submarine campaign. Without this cargo space, the achievements of the United States in the first World War would have been impossible. Since it was an important factor in our landing a million soldiers in France six months ahead of schedule, Gay was widely acclaimed, along with General Hugh Johnson, as one of "the two miracle men of the Army." In 1929 Gay served the government again in a survey conducted by the National Bureau of Economic Research for the Committee on Recent Economic Changes of the President's Unemployment Conference.

Capitalizing his early arrival, Gay played a leading role in calling other scholars to Washington during the first World War. Realizing that experts would be needed during the critical period of postwar readjustment, he tried to prevent the hasty demobilization of trained personnel upon the termination of hostilities. Some of the men retained at Washington formed an important nucleus for administering the programs of economic and social control begun under Herbert Hoover and expanded under Franklin D. Roosevelt. Gay was largely instrumental in preserving the records of war agencies which proved indispensable in the second World War, and at the darkest hour of this conflict he was consulted again concerning shipping problems.

While managing the *New York Evening Post*, Gay was elected to the Board of Overseers of Harvard and took an active interest in the administration of the University. In 1924 he returned to Harvard as professor of economic history, and in 1935 he was appointed to the Henry Lee professorship. He retired the following year to take a position on the research staff of the Huntington Library at San Marino, California; and after the retirement of Dr. Max Farrand in 1941 he became director of research, and held this post until his death.

During the depression of 1920–21, Gay and Professor Wesley C. Mitchell took the lead in planning and organizing the National Bureau of Economic Research. Gay was elected the first president. In 1924–33, the formative period, he served with Mitchell as co-director of research. Gay also played a leading role in the organization of the Council on Foreign Relations and in establishing *Foreign Affairs*. From the first issue he was a member of the editorial board. He served in 1921–33 as secretary-treasurer of the Council, and in 1933–40 as vice-president.

Assisted by Sir William Beveridge, in 1929–30 Gay organized the International Committee on Price History, which undertook systematic histories of prices in Austria, England, France, Germany, the Netherlands, Spain, and the United States. If the research had not been interrupted by war, the results might have fulfilled Gay's dreams since his graduate-student days of having complete histories of prices and wages in the leading countries with an occidental civilization. In this undertaking Gay was also influenced very strongly by the highly significant results obtained by Professor F. C. Mills in his *Behavior of Prices*, a study that Gay followed with extraordinary interest at every stage of its preparation.

In 1932 Gay's former students honored him with a *Festschrift* entitled *Facts and Factors in Economic History*. Reflecting the breadth of his teaching, the topics ranged from "The Economics of Population in Ancient Greece" and "Medieval Spanish Guilds" to "Bata, Chief Figure of the World's Shoe Industry" and "American Politics at the Crossroads." Every region and most of the leading universities in this country and Canada were represented by the contributors. One of them is now president of the Economic History Association; one has been Under-Secretary of Commerce; and two have been president of the American Economic Association.

Gay was the leading founder of the *Journal of Economic and Business History* in 1928. He was the first editor and shaped its policies until the pressure of previously accepted responsibilities forced him to resign. In 1929 Gay was president of the American Economic Association, and in 1940 he was unanimously chosen as the first president of the Economic History Association. "The Tasks of Economic History," the title he gave his presidential address, was adopted as the title of the annual supplement of the *Journal of Economic History*. He was a prime mover in the organization of the Committee on Research in Economic History of the Social Science Research Council in 1941. The new strength and new hope he derived from these activities brightened his last years.

Gay was the first native-born American to occupy a chair in economic history in an American university. Both through teaching and guidance of research he dominated economic history as very few American scholars have ever dominated any major academic field. During the last three decades it has been difficult to form a committee of recognized economic historians without naming an embarrassing majority of Gay's students or of his students' students. Men trained either under him or under men he has trained hold a high percentage of the chairs in economic history in the New World. Largely because of his unselfishness in criticizing the work of others and because of his abiding interest in vital current problems, his own scholarly output was exceedingly slender for a man of his stature. Two articles on the English enclosures at the turn of the century, a few articles on current events in the 1930's, and a series of articles on the Temple family after he went to the Huntington Library were his only major contributions. Except for a discussion of "The Putting Out System" in the *Encyclopaedia of the Social Sciences*, none of his unprecedented knowledge of the Industrial Revolution, derived from decades of brilliant and patient research, ever saw the light.

Very few men have inspired, promoted, or directed research with comparable effectiveness. His students kept in touch with him and drew inspiration from him for decades after their formal study ended. Perhaps no other American economist has had so many scientific books dedicated to him. Certainly very few have ever expended their energy as freely in stimulating research or used their wisdom as conscientiously or effectively in criticizing the product. As a teacher, scholar, executive, administrator, internationalist, and man of affairs Edwin F. Gay will not soon be replaced.

EARL J. HAMILTON

*Northwestern University*

# BOOK REVIEWS

## Economic Theory; General Works

*The Theory of Price.* By GEORGE J. STIGLER. (New York: Macmillan. 1946. Pp. vii, 340. $3.75.)

Professor Stigler's *Theory of Competitive Price* (reviewed in the December, 1942 number of this *Review*) has now been augmented by Part III containing a hundred-odd pages on Imperfect Competition and Part IV consisting in two chapters on the topics of Multiple Products and Capital and Interest. This review will be concerned only with an evaluation of the new material.

The author has presented a provocative, if spotty, discussion of some of the problems of monopoly and reveals himself as a wholly admirable and ardent crusader against monopoly of all kinds, including labor monopoly. The topics appear to be all-inclusive: advertising, non-price competition, discrimination, the highly useful concept of cross-elasticity of demand, differentiated products, oligopoly, bilateral monopoly, price rigidity, and even the "trust" problem, complete with investment bankers, promoters, "unfair" competition and the NRA. There are many ideas and certainly no lack of opinions. Everything is there—except, as will be explained later, a fundamental understanding of the central idea underlying the subject which is supposedly being interpreted for the student (this is a textbook). Problems at the end of each chapter are on the whole excellent, and should contribute substantially to developing the student's facility in using the technical apparatus.

A first serious criticism must, however, be made on the ground of organization. The chapter headings of Demand, Costs, Pricing, and Pricing of Productive Services are carried over from the "competitive" portion of the book; yet it appears (quite naturally at this stage) that there is little to be said about the first two which does not lead into the third or fourth. As a result we have "pricing" throughout; and such vital topics as advertising, discrimination, oligopoly, non-price competition, cartels, etc., are merely cut into slices and a portion served up in each of several places, as though a card on this subject (calling for two pages more) had again been drawn from a well-shuffled pack. For instance, several of the basic propositions on discrimination between independent markets are sketched (two pages) in the chapter on Demand, whereupon we suddenly shift to oligopoly; when the subject is again encountered in the Pricing chapter we have two more pages, on the problem of "seepage" between markets not quite independent. Similarly, oligopoly is substantially developed under Demand, only to reappear in the Pricing chapter (under the heading of "Duopoly") where

several more advanced problems are commented upon. When some of the topics are reached, it is found that they have already been exhausted elsewhere (or so the author thinks). Thus with "Monopolistic Competition" at the end of the Pricing chapter; but in order not to leave the space blank we are given instead an assortment of two pages each on (a) "The Concept of an Industry" (which "we can no longer postpone"), and (b) some added reflections on non-price competition. "Comparisons of Competition and Imperfect Competition" are treated in the chapter on Costs, before Pricing has (presumably) appeared at all. "Bilateral Monopoly" gets a page and a half under Pricing with what is almost an apology for bringing up the subject since "there must be very few cases"; when it is again mentioned under Pricing of Productive Services we are told that union wage bargains (of which there seem to be more than a few) are "much the most important case of bilateral monopoly" (p. 300), yet in this latter case no limiting parameters are even suggested and the entire accompanying discussion of collective bargaining is carried on without reference to the concept. Such contradictions and loose ends are frequent and confusing. On page 215 it is "consumer ignorance" which gives rise to monopolistic competition, whereas on page 240 "consumer information" becomes "necessary" to it (since it is "necessary" to Stigler's preconceptions that the demand curves in this case be highly elastic, of which more later). Our criticisms have passed from matters of pure organization to a questioning of how far the author has really digested his new subject.

The concept of "monopsony" receives mention under "Rivalry in *Buying*" (p. 249) in the chapter on *Costs* (where, incidentally, rivalry in *buying* is repeatedly and confusingly contrasted with rivalry on the *demand* side), and it appears again by name in relation to wages in Pricing of Productive Services. But the only theoretical treatment of it is elsewhere: page 254 with a diagram, where it is repeatedly referred to as *monopoly*, and pages 245–46 with tabular and algebraic treatment where it is referred to merely as "imperfect competition." These latter pages are at the beginning of the Costs chapter, where some of the worst effects of Professor Stigler's random methods of assembly and (shall we say?) carelessness are strikingly illustrated. We start with the proposition (reiterated) that the cost of a productive service to a firm is its *alternative* earnings in competing uses, a principle supposedly illustrated in Table 18. But Table 18 deals only with the firm in question and from it emerges instead the principle that the entrepreneur will pay a productive service its marginal value product to *him*. Passing over this confusion, the next heading is "Technical Derivation of the Cost Curves." We now have a table dealing only with monopsony (but never referred to as such), labeled Monopoly, and referred to in the text as illustrating "the detailed derivation of the cost curves under imperfect competition." To the student it must appear that this is a continued ("detailed") development of the same subject, *viz.* marginal value product, whereas the latter has in fact been dropped and an entirely different one taken up. Furthermore, the principle embodied in the table (monopsony) is made to appear as synonymous and coextensive with "imperfect competition"! The

argument ends abruptly with an algebraic formula, whereupon we pass discontinuously to the next unrelated topic: "an important problem concerning monopoly profits."

When we arrive at the chapter on Pricing of the Productive Services under Imperfect Competition, we find, of course, that "the general principle . . . has already been sketched" in chapter 12 (for 12, read 13), and so the chapter turns instead to two specific topics in the labor field: some brief remarks on labor mobility and a discussion of union policies and their history. Interest, although clearly regarded as a "service" by the author, appears, separated by "Multiple Products," in another book—the omnibus Book IV. There is no treatment in the entire volume of either rent or profits (except for fragments so casual that the subjects are not even listed in the index), an unfortunate omission for a book avowedly designed as a text.

It must be clear from the foregoing that the new portion of Professor Stigler's book seems to this reviewer distinctly inferior to the old. Yet this judgment in itself is of minor importance beside an understanding of the reason why it should be so. This reason is not far to seek, for the author himself is quite explicit in his introductory paragraphs to the new chapters, that he is now taking up what is to him, by contrast with "perfect" competition, the *un*systematic part of economic theory. It cannot be overstressed that, although "imperfect" (monopolistic) competition has in fact come to be widely accepted as either (a) more general than pure competition, and shading into the latter as an extreme, or (b) at the very least, more specifically applicable to a portion of the economic system than is pure competition, and hence designed to replace it *in part*, it is none of this to Stigler. It merely refers to the "literally infinite number of possible deviations from perfect competition" (p. 197), a hodge-podge without any system of its own (until we have more "factual knowledge") and from which selection can only be made by intuition (p. 198).

Stigler is in fact a thoroughgoing "perfectly competitive" theorist. Competitive theory is the basic framework of economic analysis (p. 21) and "competition is a better single assumption . . . than monopoly" (p. 23). (I believe the reverse to be true for reasons set forth in *Monopolistic Competition*, chapter IV, summarized on page 68; but, in any event, why must there be a *single* assumption?) "Monopoly (or better, . . . imperfect competition)" is like friction in physics, and hence to be dispensed with in the "first approximation." Although it was in protest against all this that the theories both of "imperfect" and of monopolistic competition developed, they have led him only to reaffirm—and repeatedly—the old position. The only two reviews I have seen of the first half of Stigler's book have both chided the author for not organizing his subject in the natural and easy way, beginning with the individual firm and "imperfect" competition. But what these reviewers could not have realized is crystal clear now—that such change would require, not merely a reversal of order, but a revolution in the author's thinking.

In addition to this "faithful unto death" attitude towards perfect competition, and (I should like to believe) as a possible explanation of it, there

is confusion and misconception in rare degree as to what "imperfect" and monopolistic competition theories are all about. Let us return to the author's "intuitions," by which he orients his readers to the subject. They are given in the opening chapter of the new material (number 11), offered specifically as "a detailed statement of the author's *Weltanschauung* which underlies the selection of content in subsequent chapters." It consists of sixteen pages on the "trust problem," a general survey of all that was commonplace in the literature of that subject long before anyone had ever heard of "imperfect" or monopolistic competition; and a final two pages on "Other Departures from Competition." Now, as for the first, there is no objection *per se* to including a discussion of the theory of industrial combination in a theory of "imperfect" (monopolistic) competition. Just as firms without any monopoly power may obtain some by combining, so those which already have some may by combining increase what they have—extend the area of their monopoly. The danger lies in conceiving of such combination as of the essence of the problem (as Stigler clearly does), in the sense that without it the situation would be essentially "competitive." It is significant that the very extensive literature on "imperfect" and monopolistic competition contains virtually nothing about combination, not because there is any question about its being monopolistic, but because it has nothing to do with the re-orientation of theory which is at issue. I repeat, however, that there is evidently no reason why the theory of cartels should not be integrated with this type of general value theory (and given as much space as desired), were it not for the accompanying misrepresentation of the latter, to which we now turn.

What of the non-trust-problem part of the subject—the last two "also ran" pages of the basic chapter? These are of dire portent indeed for what is to follow. We find that: (1) the "other departures" to which "economists have also paid much attention in recent times . . . are due to a fundamental characteristic of consumer markets—consumer ignorance" (*sic*, p. 214); (2) product differentiation, described here and elsewhere as the differentiation of "virtually identical commodities," is "the effect of this ignorance" (*sic*, p. 215); and, for the *bouquet*, (3) there would still be much product differentiation under *perfect* competition "*because of the great variety of tastes and needs of consumers*" (my italics). Now if Professor Stigler wishes to draw out his own system from a set of strange propositions of this sort, it is his privilege. But he should not represent it (see Preface) as a survey of the topic in question in "modern price theory." It is indeed hard to understand how anyone could have arrived at such an interpretation.

Let us comment briefly on the above propositions. (1) Far from being the explanation of those "departures from competition" which economists have discussed in recent times, consumer ignorance has played virtually no part at all in explaining them. Important as it may be, and especially in connection with the particular subject of advertising, it is a fact that by far the greater part of the literature on "imperfect" and monopolistic competition has been written without reference to it, *and would remain intact under the assumption of perfect consumer knowledge.* (2) Product differentiation is

explained, not by consumer ignorance, but (a) in part by the heterogeneity of "nature," including both "land" and its products and the services of human beings, and (b) probably in greater part by the conscious production of variety in response to the demand for it, a demand arising from the diversity of tastes and needs. (3) Variety of tastes and needs leads, as stated, to product differentiation; but far from being consistent with perfect competition, it signifies individual scales of preference as between the products of different firms, and hence demand curves for these products which are not perfectly elastic, which are characterized, in fact, by all degrees of elasticity. Such curves are not consistent with perfect competition—on the contrary, they indicate monopoly, which may be admitted into the analysis without compromising one iota whatever competition is also present. Now there are some critics of this type of theory who believe that its importance has been overstated, and, without sharing their judgment, I am bound to respect it. But when our author warns his readers in the midst of such misconceptions as these that "the recent literature of economics has materially exaggerated the importance" of product differentiation, I can only state flatly that, since his misunderstanding of the recent literature goes to its very roots, his interpretations of it and his opinions about it in a textbook are mischievous, to say the least.

Let us observe how this is so in our leading case of gradations in substitutes. Although we read, on the one hand, that "cross-elasticities can vary from infinity to a small value, and any division of this range into monopoly, monopolistic competition, and near perfect competition, must be arbitrary" (p. 239), yet such a division between monopoly and monopolistic competition is in fact made, and the actual gulf between the two concepts in the author's mind is revealed by the difference in the way they are treated. Monopoly is fundamental, defined to exclude competition (p. 221) (although never referred to as *pure* monopoly), and most often associated with an *industry*. Monopolistic competition, on the other hand, is a matter primarily of consumer ignorance (as stated above; see also p. 329 note, and *passim*), where products are "technologically very similar or even identical" (p. 218 and *passim*), referred to as only "quasi-monopoly" (p. 215), characterized by quite elastic demand curves, and seemingly different only in minor degree from "competition" itself. All this is not very different from what could be found in the textbooks twenty-five years ago. I can only conclude that the student who takes these chapters of Professor Stigler's as a guide will be off to a bad start in understanding what writers on "imperfect" and monopolistic competition have been talking about in recent years.

EDWARD H. CHAMBERLIN

*Harvard University*

*Le Mécanisme des Prix et la Structure de l'Économie.* By JEAN MARCHAL. (Paris: Librairie de Médicis. 1946. Pp. 250. 240 fr.)

Utilizing what time he could snatch for academic work during and immediately following the nazi occupation of his country, Professor

Marchal has given us a volume which is definitely more than "another French economics book." It has analytical stature; in America it would be considered an advanced undergraduate or first-year graduate text in general price theory, with its particular emphasis (60 per cent by weight or volume) on imperfect competition. His text may be considered a French counterpart of Stigler's *Theory of Price*. It is a clear and lucid presentation in the best tradition of French expository writing and devoid of lofty claims to theoretical originality. The language is so simple that the American teacher should find large portions, particularly of Part II (Imperfect Competition) suitable for supplementary reading by students with even a limited knowledge of French. Two chapters in particular, derived from von Stackelberg's *Marktform und Gleichgewicht* and dealing with bilateral monopoly and duopoly-oligopoly, respectively, surpass in logic and clarity any presentation this reviewer has seen in English, and merit translation for the benefit of students unable to grasp the French original. (How long, incidentally, will it be before Stackelberg's own work becomes available in English?) Marchal's method is arithmetical and graphical where it departs from the literary. Mathematics of collegiate grade and pretensions to unnecessary rigor are reduced to a minimum. More care might perhaps have been devoted to selecting simpler figures in the arithmetical examples, and to increasing the legibility of many of the diagrams.

But Professor Marchal is writing as a social scientist rather than a technician. In Part I of his book, devoted to a brief and in some sections sketchy treatment of "The World of Perfect Competition," the stress is on the socially optimal character of the purely competitive "solution," and there is an underlying criticism of the entire construction as Utopian and visionary. In contrast to the "(Dream)-World of Perfect Competition," "The World of Imperfect Competition," especially the world of Edgeworth-Bowley duopolies and oligopolies, is the "real" world. It is a world not only on situations less than optimal, but of complete economic chaos and disequilibrium, stabilized only by frictions and rigidities. From its shortcomings Marchal in his concluding chapter sees escape either by the elimination of the profit motive through consumers' cooperation on a grand scale or through the simulation of perfectly competitive conditions in a regime of national planning subject to economic "rules." He does not consider or even mention anti-trust policy or any other conceivable reversal of the apparent "decline of competition," nor yet the "defenses of monopoly" suggested by Boulding or by Schumpeter.

Cut off as was Marchal from the main currents of economic thinking while this book was being written, he cannot be criticized severely if portions of it resemble somewhat the fashions of last season, too outmoded to be wearable and still too modern to be picturesque. His reading has been chosen well and digested thoroughly, but it covers little of value later than Hicks' *Value and Capital*. Even in the field of his particular interest, imperfect competition, Marchal has not had the opportunity to read Triffin on the problems of defining "the industry," nor the Hoffman-Nicholls analysis of cumulative effect of successive monopolies at various stages of a

productive process, nor the developments arising from the discontinuous or "kinked" demand curve in the theory of oligopoly. The definition and discussion of "pure competition" could have been improved by a reading or re-reading of the relevant sections of Knight's *Value, Price and Profit*, and the treatment of planning by the supplementing of Meade with the more extensive work of Lange and Lerner. His treatment of cost, particularly with relation to supply, is inferior to Alfred Marshall's *Principles* where it departs therefrom (by telescoping market and short-run adjustments), and it does not utilize at all the refinements of Viner and of Harrod. The discussion of consumers' surplus is purely Marshallian.

There are also a number of problems side-stepped or evaded which an American teacher, particularly at the graduate level, sometimes stresses. For example, Marchal is willing to postulate the measurability of utility, and presents no consumption indifference curve analysis at all. The phenomena of diminishing returns and increasing costs are not related in any adequate manner. Nor are problems of complementarity, particularly in production, where problems of "variable proportions" in joint costs are slurred over. Even in the generally superior second part, the reaction of monopoly on the marginal productivity of labor and on the income of workers—the Robinson relation between the elasticities of demand and substitution—is not presented. Strangest of all in a French economist of logical and analytical bent, there is no chapter on general equilibrium summarizing the contributions of Walras and the Lausanne School.

Of forthright technical errors, however, there are few. At one point (p. 29) Marchal calls a linear demand curve iso-elastic, and at another (p. 66) he identifies a competitive firm's supply and (short-run) average cost curves. Monopoly and monopsony seem confused in the suggestion (p. 139) that a monopolist can increase output and employment by evading the payment of rent. Perhaps more important philosophically, he attacks (p. 184) the Marxian allegation of exploitation of the proletariat on the basis of the Pigou-Robinson definition of "exploitation"—a semantic as well as an economic slip. Such errors, however, frequently enter the first editions of works composed under less arduous conditions than this one, and can be eliminated readily in subsequent revisions. And as it stands, this book, if accorded widespread reading, can go a long way toward lifting French theoretical economics from its prewar doldrums.

M. Bronfenbrenner

*Chicago, Illinois*

*Economics*. By John Ise. (New York: Harper. 1946. Pp. x, 731. $4.50.)

In the preface to his long-awaited textbook, Professor Ise says he has "resisted the lure of lucre and the blandishments of the publishers for about thirty years." He should be gently chided for withholding from us for so long the benefits of his wisdom and knowledge. For this is no ordinary textbook. Into it the author has poured the accumulated wisdom and knowledge of a lifetime spent as one of our most distinguished teachers and he has imbued the conventional material of a principles textbook with a warm

human philosophy that makes the reading of it an exciting and stimulating experience. In comparison, the average principles text appears sterile indeed.

In adopting a broad philosophical attitude towards many economic questions, Professor Ise has recognized a fact that many elementary text writers seem to ignore. This is that large numbers of students taking basic principles courses are not planning to become specialists in the field of economics and therefore do not need as rigid a schooling in theoretical analysis as is often thrust upon them, which, according to Professor Ise, gives them a false idea of the precision with which economic principles operate. Professor Ise belongs to that school which believes that modern education tends to concentrate too much on facts and vocational training to the exclusion of thought and originality. He considers that fundamental human values should be reasserted and that the broader implications of man's cultural heritage should be stressed in place of the present emphasis on material and technical achievements.

Ise is very critical of capitalism and indeed does not think it has much of a future. His criticisms are, however, based not merely on the fact that the system operates inefficiently in many ways but also on the fact that it has led to spiritual decadence, a decay of human values, and a growing emphasis on cheapness, tawdriness, and dull standardization. Although he is of the opinion that some type of collectivism will take the place of capitalism and that "socialism is preferable to communism or fascism because it is the only democratic form of collectivism," nevertheless he believes that no mere economic reorganization will do us much good unless, through real education of the individual, we achieve a moral rebirth. Throughout his book Ise emphasizes this and loses no opportunity of stressing the human angle of economic problems. For instance, he emphasizes the human costs of specialization (Chapter 6) and the fact that the diffusion of stock ownership and concentration of economic power have led to the undermining of "the sense of individual responsibility which is fundamental to a capitalist society" and to the loss of "certain spiritual values that went with management and control" (Chapter 8). Later, after discussing the technical difficulties of a socialist state, he concludes that its success in the final analysis would depend on education and individual realization of the issues involved (Chapter 41).

The adoption of this broad philosophical approach permits Professor Ise to range over a very wide field of human knowledge and to discuss such things as geographical determinism, eugenics, sociology, and politics, and specifically such interesting things as the murder of the Italian socialist Matteotti, the usefulness of the photoelectric cell, courtship and marriage conventions, and the Soviet "purge" trials. He also refers to the views of such different persons as Mark Twain, Will Rogers, Leland Stowe, Jawaharlal Nehru, Major Alexander de Seversky, Ruskin, Plato, and "General" Jacob Coxey, not to mention quotations from the Bible, "Alice in Wonderland," and Shakespeare.

It should, however, not be thought that Professor Ise allows these in-

teresting ideas to obscure his elaboration of those basic economic principles which it is the purpose of an elementary textbook to enunciate for beginning students. On the contrary, he is to be congratulated on his remarkably clear descriptions of those basic principles. Ise has a most admirable gift for clarity and coherence that is a very welcome contrast to the incredible verbosity of some texts which ramble on through masses of factual detail which only confuses the student. While Professor Ise never loses an opportunity to exercise his well-known wit at the expense of some of the folkways of our society, he does not let extraneous matter interfere with his descriptions of such things as the operation of the price system, the nature of the banking system, or the types of taxes imposed. Much of his philosophizing is concentrated in the last two hundred pages, in Parts VI and VII entitled "General Aspects of Capitalism" and "The Other Isms," which follow the five-hundred page treatment of basic principles under conventional chapter headings. What Professor Ise has succeeded in doing is to tie together many strands of human thought, albeit in a controversial way, and to show the place of economics in the main body of human knowledge. In doing this, he has made economics an exciting and alive science calculated to arouse the interest of any student with normal intellectual curiosity.

After an introductory chapter on Elementary Concepts, Professor Ise spends 140 pages on Production in which he discusses the factors of production, population problems, specialization, and the types and size of business organizations. Great emphasis is placed on the evils of monopoly. Indeed, all through the book it is obvious that Professor Ise regards monopoly and "Wall Street finance" as the worst feature of our economic system. He returns to the attack again and again, sometimes winging barbed shafts of Veblenian irony at the activities of big business but more often launching bold frontal attacks in extremely outspoken language. The activities of corporation directors, investment bankers, coal-mine operators, oil interests, insurance executives, and munition makers are all denounced with vigor.

Part III of Ise's book deals with prices and consists of eight chapters totalling 113 pages. Ise claims that he has not elaborated the intricacies of value analysis as much as has been done in some recent books because he does not believe that this is important for nonspecialists who do not expect to take further courses in economics. He has, however, done a remarkably good job of outlining the conventional market situations. His chapter on the significance and functions of the price system in a capitalist economy, which precedes the conventional curve analysis, is a particularly clear and practical discussion. Later in the book, in Chapter 42 on Communism, he discusses the problem of the allocation of resources under the Soviet system and the contrast is a useful one. In his price analysis chapters Ise never forgets to show the practical implications of his theoretical analysis.

Part IV is entitled Exchange and consists of 95 pages, which is not many for a section which tries to cover money and banking, price levels, business cycles, domestic trade, and international economic relations. As a result of this compression, the material on business cycles and international trade is not entirely satisfactory.

Ise gives a good description of the characteristic phases of the business cycle but a rather vague and cursory treatment of its causes with a little too much emphasis on the odder theories. He obviously does not think much of "pump-priming" and says, in criticizing reflation measures (p. 321), "When the depression has been running for awhile, the natural forces of recovery are usually strong enough to bring a gradual revival of business which will perhaps be sounder if the government does not try to force it by inflation measures." There is, however, no account of the modern and more sophisticated theories, as expressed by Professor Hansen in "Fiscal Policies and the Business Cycle," for instance, nor of the ideas that gave birth to the original "Full Employment" Bill. Judging by the weight given to monopoly in this book, the author is more interested in the structural maladjustments in the economy than in "over-saving" and "compensatory spending." The multiplier principle is not explained. Keynes gets less space than the "Ham and Eggs" and Townsend Plans.

The two chapters on international economic problems are likewise deficient. Much space is devoted to the usual arguments for and against tariffs but Ise virtually ignores the more modern problems arising out of the growth of direct controls and state trading. Quotas are not mentioned at all; exchange control receives one paragraph; Bretton Woods is not mentioned although considerable space is devoted to the gold standard. The Reciprocal Trade Agreement program is referred to very briefly without much explanation of its nature and purposes and not until seven pages after a much longer discussion of the iniquities of using the tariff as a political football. It is not stated that the Reciprocal Trade Agreement program put an end to that thirteen years ago. Worst of all, there is no discussion of the relationship between the flow of long- and short-term capital, interest and dividend payments, and merchandise trade, nor of the status of the United States as a creditor nation.

Part V deals with Distribution including public finance. This latter chapter largely ignores modern theories of compensatory fiscal policy; Ise does not think much of the idea that expenditures are beneficial because they "put money in circulation." His chapters on labor are carefully designed to give the student a fair picture of the situation and help them avoid generalizations and black and white contrasts. A curious arrangement of emphasis is noticeable, however, when Ise spends three pages on union monopolistic restrictions but only two lines on mediation, with no mention of the U. S. Conciliation Service at all. Similarly, in his otherwise excellent chapters on Rent and Some Land Problems, he spends four pages on the single tax but ignores agricultural price-support programs. Ise might also have spent some time on the nature of corporation profits instead of dealing only with those of the individual entrepreneur. He could easily have found space for this by devoting less space to the "acquisitive" profits of munition-makers, swindlers, and grafters, etc. This lack of balance in Ise's treatment of important subjects becomes rather irritating and detracts from the usefulness of the book.

The last two hundred pages of the book on "General Aspects of Capitalism," "The Other Isms," and "The War and Postwar Economy" are likely

to arouse a great deal of controversy. Ise pulls no punches in his chapters on the capitalist system. He believes indeed that we have "all the ingredients for a Fascist regime" in the United States and he lashes out at business control of politics, the press, radio, education, and foreign policy. He is surely less than fair to his colleagues in the profession, however, when he says that "education in the social sciences is largely a process of propagandizing in favor of the *status quo*, or better, a process of inoculating students against thinking about important questions" (p. 550).

One of the principal criticisms which can be made of Professor Ise's book is that he tends very often, through the omission of certain facts and the overemphasis of others, to give the elementary student a somewhat distorted picture of the capitalist system. For instance, the activities of Boss Tweed, Samuel Insull, the 19th century railway magnates, Sir Basil Zaharoff, and other persons of doubtful economic morality are discussed but there is no mention of such organizations as the Committee for Economic Development. The atrocities of King Leopold in the Belgian Congo, the operations of the U. S. Marines in Nicaragua, and other unsavory aspects of capitalist imperialism are emphasized but no mention is made of the growth of the idea of trusteeship or the "Good Neighbor" policy. It is surely hardly true now that New York banks dictate the choice of Cuban presidents, as Ise says on page 558. While considerable space is given to the various ways in which company directors can deceive stockhholders, there is no statement of the fact that the corporation is the most efficient institution yet devised for mobilizing capital for purposes of production. Many of Professor Ise's criticisms of capitalism have a somewhat old-fashioned air about them as if no changes had taken place since the worst days of the late 19th century.

Ise is no Marxist, however, even though he does keep on using words like "imperialism," "reactionary," and "fascist." In essence he reminds one of a supporter of William Jennings Bryan, crying out from the West against the corruption, false values, and monopolistic exploitation of Eastern bankers and business men. "Many men go to the penitentiary for stealing chickens," he says on page 551, "but a few have gone to Congress for stealing a railroad or a corporation or a hundred thousand acres of land or a million dollars."

Ise's approach is certainly entertaining and provocative. Conservative persons will be outraged but even liberals may wonder about the wisdom of exposing beginning students to certain sections in view of the extremeness of some of the statements made. There is no doubt, however, that Professor Ise has produced a remarkable book which should, and undoubtedly will, be widely read and discussed.

JAMES D. CALDERWOOD

*Ohio State University*

*Economics in One Lesson*. By HENRY HAZLITT. (New York: Harper. 1946. Pp. xi, 222. $2.00.)

This two-hundred page lesson is devoted to an exposition of the leading

"fallacies" that in the estimation of the author infect much contemporary economic thought and policy, and to a reassertion of the common-sense verities of old-fashioned economic liberalism. Firm in the conviction that we cannot get something for nothing, and that we cannot pay Peter without robbing Paul, Mr. Hazlitt argues that current ideas to the contrary flourish chiefly because of a failure to trace through the effects of particular measures from their immediate impact to their ultimate, generalized consequences for the entire society.

In a series of twenty-three well-pointed chapters the author reviews his gallery of fallacies, running the gamut from the broken window argument to the theory of oversaving. Throughout the book runs the same basic theme: the broken window makes work for the glazier and the glass maker, but the necessity of repairing the window leaves the householder with that much less to spend on other things. The increased demand for the glazier's services is immediate and obvious, whereas the other goods that go undemanded are not so readily visualized, and so the real impoverishment of the community goes unnoticed.

In the same vein Mr. Hazlitt argues that public works to sustain employment mean taxes that prevent other goods from being demanded; that governmental provision of easier credit for farmers or others promotes production by the less efficient and handicaps (through taxes or competition for capital) the more efficient who are not beneficiaries of public aid, leading in the end to a reduction in productivity throughout the economy as a whole and an impairment of real income.

The general confusion of special and general interests is examined in a series of chapters keynoted by the question "Who's Protected by Tariffs?" and the particularist character of the traditional tariff arguments is spotlighted by a satiric chapter on "Saving the X Industry."

The fallacy that what is good for the industry is *ipso facto* good for the country is sharply attacked within the setting of "parity" prices for agricultural commodities and governmental programs for "stabilizing" commodities, agricultural and otherwise, whether to be achieved through loan programs to facilitate withholding of supplies from the market, or through restriction of production, or both. Such restrictive programs interfere with the attainment of maximum efficiency in production by limiting the output of the more competent producers, and saddle on the community the burden of sustaining marginal, high-cost producers who would normally be weeded out by the pressure of unsupported prices. What is seen is the helping hand extended to the immediate victims of the squeeze imposed by uncontrolled prices; what is not seen is the lost demand for other goods that consumers cannot buy because of the prices they are forced to pay for the protected commodities. Moreover, if the support of prices is effected through government loans or purchases of "surplus" commodities for storage, the day of reckoning is only postponed. Ultimately the sheer weight of accumulating stocks and the increasingly heavy costs of carrying them will result in a catastrophic breakdown of the support schemes and an incomparably greater instability of prices than before.

Mr. Hazlitt has no more sympathy for government attempts to fix maximum prices than for efforts to establish floors under sick commodities. Such efforts result in a disparity of production and demand, and induce progressively more serious distortions at the successive levels of production and distribution. Legal price-fixing cannot cure the basic difficulty of scarcity of goods or surplus of money. And by discouraging production and distorting the normal relationships of the market the scarcity of goods in relation to desires is enhanced rather than corrected.

An equally dim view is taken of efforts to raise wages either through minimum wage legislation or through union action. Increases in money wages benefit particular groups of workers at the expense of employers and other workers, but do not in the long run and for the whole body of workers raise real wages at all. Rising real wages can come only through overall improvements in technology and efficiency in the use of all resources, whereas much union policy, by compartmentalizing productive processes and restricting output, has tended to reduce rather than to enhance the total productivity of the community.

Turning to the purchasing power theorists Mr. Hazlitt argues that the demands for the products of industry come not from the workers alone but from all recipients of income, and that an increased command over goods for one group proportionately reduces the ability of others to buy. To the extent that artificial shifts in the command over goods are accomplished they tend to distort the relationships of prices and costs, and to curtail the production of goods and the flow of real income throughout the economy by inhibiting enterprise.

Mr. Hazlitt still puts reliance on the operation of a free price and profit system to achieve the best possible balance in the production and distribution of all kinds of goods and services. Profit prospects provide the most effective incentives and guides to production; profit and loss realizations encourage the efficient and weed out the inefficient. No authoritarian or arbitrary system of management of our economy could make fewer mistakes or proceed more effectively to liquidate the consequences of past errors of judgment.

The author still believes in the old-fashioned virtue of thrift and sees in saving the mainspring of a progressively dynamic economy. For saving, coupled with investment in the means of production, opens the way to expanded output and higher real incomes for all. What is harmful is not saving, but sudden changes in saving and investment brought about by uncertainties, to which the vagaries of public policy are an important contributing factor. Efforts to influence the flow of saving and investment through tampering with the interest rate or other means is bound, like the manipulation of other prices, to retard production and thwart the achievement of maximum real production and income.

Mr. Hazlitt has thrown down a vigorous, skillful, and provocative challenge to sophisticated formulations of theory and policy, and it must be conceded that all too often the forest has been neglected as a consequence of preoccupation with the trees. In stimulating nettled reactions his book

performs a useful service. Moreover, if his general premises are granted his conclusions naturally follow. But the premises themselves demand examination.

In the main Mr. Hazlitt has implicitly assumed an economy that is very near to the point of full employment, with all resources utilized productively. Under such circumstances an expansion of production in one direction must divert resources from other lines, and governmental credit extended to one group of producers would tend to reduce the resources available to others who were going it alone. By the same token efforts to increase the purchasing power of one group would simply reduce the buying power of others competing for the same goods.

But Mr. Hazlitt has not shown that his analysis is applicable to an economy that is functioning below capacity, when an expansion in one area will attract resources, not from other uses, but from idleness. Under such circumstances it is not clear, for example, that government spending on public works, whether financed by taxation or borrowing, will divert either funds or resources from more productive to less productive uses. The choice then is not necessarily between production of different kinds of goods and services, but between use and non-use of resources that are at the disposal of the community as a whole. The experience of the United States and other countries during the earlier phases of rearmament and war clearly showed that a great increase in production was possible in many lines before it began seriously to cut into the output of normal civilian goods. Only rather late in the game did it become necessary to choose between butter and guns.

In dealing with conditions of acute scarcity such as emerged later in the war itself Mr. Hazlitt argues that the imposition of maximum prices created scarcities by holding prices down as spendable incomes increased, and deplores the resort to rationing as a substitute for price increases to determine the allocation of available supplies. Rationing, he says, does only a part of the job performed by price, "because rationing merely limits the demand without also stimulating the supply, as a higher price would have done." But generally speaking an increase in the production of rationed goods was precisely what was not desired when resources scarce in relation to military and civilian demand had to be apportioned in terms of priority of need rather than of desires backed by purchasing power.

In fairness to Mr. Hazlitt it must be noted that he directs his criticism primarily to peacetime price-fixing, and passes over the exigencies of wartime policy with the comment that "we shall not examine here the wisdom of wartime price-fixing. The whole economy, in total war, is necessarily dominated by the State, and the complications that would have to be considered would carry us too far beyond the main question with which this book is concerned." But the same comment could be applied to many of the problems confronting the state in a period of underemployment, problems with which "non-common-sense" economists have been wrestling for a couple of decades.

Mr. Hazlitt might say in rebuttal that the way out of the impasse of underemployment is to release the initiative of enterprise by removing

restrictions on the freedom of enterprisers to seek and enjoy profits. But he fails at any point to recognize that the search for profits may itself prove restrictive of productive activities, as when the prospective gains from combination appear to be greater than those obtainable from competition. He has not come to grips with the problems arising out of the unequal distribution of economic power, nor with the influence of other factors, such as the quest for security, that bear on the formulation of industrial policies. The author extols the virtues of a free price and enterprise system as though it were a system that we now have in essence, but have strangled in an enveloping mass of bureaucracy and red tape. But he has not shown that the cutting of the tape would release the full energies of which the system is potentially possessed, nor has he undertaken to blueprint the changes that would be necessary to establish the system in which he believes.

Mr. Hazlitt has contributed a smoothly written, swiftly moving, and persuasive addition to the contemporary literature of *laissez-faire* that will serve to backstop the views of those whose answer to any contemporary problem is to do away with government meddling with business. That it has elicited laudatory comments from such figures as Louis Bromfield and F. A. Hayek will occasion no surprise. Even the "sophisticated" economist may find himself agreeing with the author's analysis and conclusions with respect to many specific questions. Nevertheless, the lesson as a whole is too easy, and the "common-sense" answers are really answers only because the basic problems have been oversimplified so much as to divorce them from the complex reality that confronts us today.

ARCHIBALD M. MCISAAC

*Princeton University*

*The Social Framework of the American Economy: An Introduction to Economics.* By J. R. HICKS and A. G. HART. (New York: Oxford Univ. Press. 1945. Pp. xvi, 261. $2.75)

This admirable little book represents an attempt to provide an introduction to economics which will avoid both the Scylla of too precipitous a plunge into value theory and the Charybdis of institutional description taking the form either of a "dull collection of facts or . . . a discussion of practical policies which may be lively enough, but which it is hard to raise much above the intellectual level of political propaganda" (p. xi). Professor Hicks' solution which first appeared in England in 1942 and which Professor Hart has ably "translated" for American use, is both interesting and original. It is to introduce the beginner to a kind of "economic anatomy" (pp. 233–34)—the factors and structure of production, the character and composition of national income. With this as a base, it is hoped that "economic physiology"—value and distribution theory—for which a following volume has been promised (p. xiii), will seem less remote and unreal.

An introductory chapter discusses the scope of economics, the nature and necessity of economic theory, and, most usefully, includes a list of the more important sources of the statistical information upon which much of the

remaining discussion is based. It may be observed, parenthetically, that familiarity with this chapter alone might have obviated the embarrassing question which a class of sophomores put to the reviewer approximately a year ago: What do economists do, anyway?

The book continues through a discussion of the process of production and the division of the product between consumption and investment, to a provocative account of the factors of production, which are reduced to population and capital. Almost one-half the entire book is then devoted to a clear and interesting exposition of the computation of the national income, its structure, and the role it plays in economic life.

The *raison d'être* of the text has already been indicated. Over and above this, however, the book has three distinct merits. It is compact and,within the limits set for it, coherent and self-contained. It is beautifully organized and there is no wastage, so that the discerning reader can see the significance of each part of the economic anatomy to the whole; and no important parts are omitted.

At the same time, however, the limits set for the book are emphasized. There is no fostering of any illusion that all of economics has been surveyed, however cursorily. Explicit reference is frequently made to matters that have not been discussed and to problems that have not been solved. Many of the conventional textbooks now in use attempt to say something about every conceivable economic topic, thereby depriving their readers of the excitement of realizing that unopened doors, yet to be tried, still lie ahead.

Finally, the book strikes a beautiful balance between simplicity and subtlety. It is completely lucid, yet a beginner will not find all of it easy. There are portions he will need to read and re-read, and he will have to think. In other words, it leaves the teacher his function.

George P. Adams, Jr.

*Cornell University*

*A Preface to Economics*. By Lester V. Chandler. (New York: Harper. 1947. Pp. ix, 289. $2.50.)

For some time now, American economists have been keenly aware of the need for a major re-examination of the teaching of the basic, introductory course in economics. The problem is not one of methods, but of subject matter. The close of the war brought to our colleges a more mature and critical student and has further aggravated the problem. To underline the gravity of the situation, one need only refer to the files of the *American Economic Review* during the last half decade. Quoting John M. Clark, "In the postwar generation, economic students may rightly insist that their study be focused around the major problems of their own time and place. . . . The traditional treatment of numerous special problems too often gave the student a multitude of trees and no forest. . . . "[1]

Professor Chandler's *Preface to Economics* attempts with a notable meas-

[1] J. M. Clark, "Educational Functions of Economics After the War," *Papers and Proceedings, Am. Econ. Rev.*, Vol. XXXIV, No. 1, Pt. 2, Suppl. (Mar., 1944), p. 58.

ure of success to supply in part this existing need. Although it should be noted that the author allegedly only "seeks to provide background materials that will enable the beginning student to understand more quickly and appreciate more fully the significance of materials presented by the usual texts," the book does more than supplement the usual material. It attempts to provide historical and problematic background for the study of the operation of the contemporary economy.

Many currently used textbooks seem to overlook the fact that the early classical economists derived their principles from the economy of their day. The writings of the classical economists were studied and taught against the practical settings of the then current policy considerations. Abstractions of such principles from their historical setting throws but little light on the problems of interest to the student of this day.

Professor Chandler recreates the framework for classical economics and skillfully notes the historical development which resulted in the present framework of the economy. Here then is a new tool to replace the all too usual introductory chapters on "Basic Economic Concepts" or "Human Wants and Limited Means." With such a preface, the student need not be plunged headlong into a detailed theoretical study of competition or imperfect competition or limited to a description of the more important economic institutions with a modicum of historical and statistical data. The unfortunate consequence of the use of either a pure theory or of an institutional text is the complete confusion or utter boredom of the student.

In size, the book is slight. It contains only 285 pages, divided into fourteen chapters. Opening with several chapters which treat in survey fashion the emergence of the business firm from the technological development of the last century, the author then relates modern production and exchange to the economic and technological development since the Industrial Revolution.

The author introduces the concept of national output and relates this to price and distribution in a capitalist society with special reference to the United States. He points out briefly, but lucidly, the areas within which the analysis of competitive price is today applicable and the areas in which it is insufficient. The last chapter is devoted to short descriptions of the various fields of economics and the application of the principles discussed in the previous chapters to these fields.

Mr. Chandler avoids the shortcoming of many a traditional textbook, which, after discussing the organization of the productive unit, plunges straightway into the price system—if it does not start out with such a discussion. Chandler also avoids the usual implication that the market place regulates itself not only under a competitive system but even under noncompetitive conditions. Instead, he integrates a depiction of the social controls which tend to effect equilibrium in the market place with a discussion of value. Incidentally, the concept of equilibrium itself is here explained with unusual clarity and simplicity.

The wisdom of the sequence of organization used in the *Preface to Economics* is, however, open to some question. It appears that a more orderly

organization would have been achieved if the author had presented first the concept of national income and then the organization of the business firm (Chapter IV). If we are to gear the subject matter to the policy problems of our day, it may be argued that the national income, which figures so largely in contemporaneous discussion of policy problems, should precede the less familiar concepts of marginal analysis and form of business organization. The analysis of the firm would seem more logically placed adjacent to the discussion of the price system. Chapter X, on the function of price and competition, might be more effective if it followed the discussion of competition and *laissez faire* contained in Chapters XII and XIII. Finally, the chapter on distribution, Chapter XI, appears to us misplaced in its present position, which breaks the continuity from the firm to market to price. It might have been better to follow the order common in most textbooks, that is, after a discussion of value and price.

In addition to the matter of arrangement, there is at times an inexact use of terms. Moreover, the value of some of the data presented in the book is not apparent. The detailed lists of the technological and scientific discoveries of the last two centuries and the two-page listing of the assets of the larger corporations appear to be superfluous for the points the author is attempting to make. The space thus consumed could have been more advantageously utilized in elaborating the treatment of more significant areas. For example, the lack of quantitative data with regard to the discussion of separation of ownership and control and the distribution of income could have been supplied.

The book, as the author notes in his introduction, is not intended to serve as a complete text for an introductory course in economics. It could serve most advantageously together with any of the better theoretical texts presently used. The acid test of such use will be the reaction of the students themselves. We gave some copies of the book to students taking an introductory course in economics. They are presently assigned a well-established textbook. The expression of one of the students is illuminating and represented the consensus of the group. "Now," he said, "I begin to understand what it is all about." It appears that the students derived more understanding of "principles" from this slight text than from the voluminous book from which they had been struggling to abstract economic sense for a semester.

SAR LEVITAN and LOUIS SALKEVER
*Associated Colleges of Upper New York*

*An Introduction to Modern Economics.* By VALDEMAR CARLSON. (Philadelphia: Blakiston. 1946. Pp. ix, 337. $3.50.)

To all teachers of elementary economics there has come at one time or another, I suppose, a vague feeling or realization of the unreality of their subject to the minds of their students, and an awareness of the struggle on their students' parts to visualize and integrate the elements into a broader whole. Such was undoubtedly the feeling of Professor Carlson when he planned and constructed his book. His frame of reference is commonplace

to writers in economics, yet his point of departure is, to say the least, unique. That there are virtues as well as defects in this technique should be evident.

The broad, general point of view, the integration of the myriad complexities of economics with the socio-political aspects of a democracy, the initiation of the beginner into fiscal policy and compensatory devices at the outset (giving him an almost tangible reason for pursuing further his study), the treatment of international trade—these are the important virtues one finds in this unusual text.

One notes, however, a number of major deficiencies, particularly the inadequate treatment of price and value and the complete omission of a discussion of income distribution. In addition, there are such matters as the philosophic approach to, and hence nonspecific treatment of money, credit, business cycles, taxation and other topics; the unquestioned acceptance of the goal of full employment; and some gross misstatements . . . all of these deserve some comment.

Professor Carlson writes, "Social evaluation must be accepted as fundamental in the determination of prices. . . . " A statement such as this, while undoubtedly generally correct, may be quite misleading as an introduction to price theory, especially if the reader thinks of such goods as wheat, nuts, bolts or salt instead of neckties. The entire analysis of price is much simplified; in fact it is so simple and incomplete that it fails to convey the full meaning of even the most elementary price theory. There is no emphasis on business decisions, on the different time periods, the attraction of profits. The discussion of costs is unconvincing and superficial and, except by implication, the concept of profit maximization (where the incremental revenue equals the incremental cost) is omitted. The lack of attention given to demand and all it involves is unfortunate, as is also the absence of any diagrammatic illustration. In addition, the author is guilty of several careless statements: monopoly, he writes, "includes not only a single seller but a single buyer." Although this momentary marriage of monopoly with monopsony is modified subsequently, the damage has been done. Again, he writes, "During a time of less than capacity operation costs can be reduced merely by utilizing portions of the idle plant." This implication that costs per unit may so simply be reduced ignores the logic of diminishing returns and is likely to produce unfortunate results.

There is an interesting and valuable digression on competition as a disintegrating force in our economy. The author has, however, not emphasized that he is comparing competition as an integrator (in theory) with competition as a disintegrator (in practice). The result must only be misleading, especially to beginning students.

In his introduction, Carlson says, "Some economists will deplore the omission of any formal discussion of distribution." Certainly nothing need be added!

The quasi-philosophic approach to money and credit glosses over many of the salient elements of both topics and concentrates upon the broader aspects of credit control. Thus, these broader questions of policy (of a

central monetary authority) are brought readily within the range of the beginner, yet the beginner has not been equipped with the tools essential for a full understanding of the mechanics. There is, for example, no explanation of the gold standard, its importance or its defects. True, the gold standard is in the advanced stages of *rigor mortis*, yet its thesis is still so basic to much of our monetary thinking and activities, including the International Monetary Fund, that the student has been deprived of a most essential element.

The more important theories of business cycles are omitted too. In fact, the author's approach seems to be: we are all aware that we have business cycles and we should all believe that the way to mitigate or avoid them is to employ broad fiscal (spending) policies. And his interest in these policies of public finance is such that he gives no attention to the criterion of taxation or to an evaluation of the effects of various forms of taxation. Perhaps the most fallacious single statement of the entire volume occurs in the discussion of fiscal policy. Carlson discusses Ford's changeover from the model T to the model A in 1927 and concludes that "the diminution of purchasing power caused by the Ford action was the leading reason for the business recession experienced in that year." Carlson apparently believes the Ford organization was completely idle during the changeover, for he ignores the effects of Ford's vast capital expenditures completed during this same period.

There seems to be an undue emphasis on full employment merely for the sake of full employment. The uncritical acceptance of this all-too-glittering goal, with no inquiry into its efficiency results is unfortunate. Carlson might at least have pointed out that he assumes the goal of a maximum total flow of goods and services will be attained when the economy reaches "full employment."

One final point requires attention. Portions of the text read like portions of a primer of political economy. This is, of course, most satisfactory, but it is accomplished at the expense of some of the more salient components of elementary economics. Eight full pages (and more) are devoted to a consideration of Marxism and its implications (and one brief paragraph to elasticity of demand!!), and there is considerable emphasis and reemphasis upon classes and the "inevitable" struggles of the bourgeoisie and the proletariat. Pedagogically, this treatment is extremely likely to impart an unfortunate bias in the minds of elementary students of the subject. I hasten to add that I would not shelter anyone from exposure to these matters; I merely criticize the unbalance in Carlson's treatment and emphasis. It seems also that his discussion of the labor problem and unions suffers unnecessarily from this background.

The loss entailed in the sacrifice of directness and specific detail in this treatment of modern economics is, upon balance, much more than a match for the gains of the general, broader point of view. I feel that many will prefer not to use this book as a text, although many others will find it useful to refer to occasional chapters for background. Specifically, the chapters dealing with full employment and fiscal policy, the one on the theory and

practice of competition, that on population problems and another on the principles of interregional trade, would make for excellent supplementary reading in the "typical" elementary course. Professor Carlson has blazed the way in his new approach to modern economics; I believe we shall shortly see others following his trail.

MERTON W. ERTELL

*The University of Buffalo*

*Elements of Economics*. By EDMUND WHITTAKER (New York: Longmans, Green. 1946. Pp. xvii, 393. $3.50.)

The appearance of a four-hundred page elementary textbook at a time in which most new and revised texts seem to approach (if not exceed) one thousand pages, is agreeable and refreshing, so much so, in fact, that the reader may unintentionally find himself anticipating as complete a topical coverage as he would expect from a text designed for more than a one-semester course. This very lack of completeness and directness is the most serious defect in a book otherwise carefully planned and interestingly and well written.

Professor Whittaker's style is good; he has included a surprising amount of material and has presented it in an engaging manner. Generally, he develops most of his topics more simply than do authors of other elementary texts. In certain areas, such as the comments which qualify the goal of profit maximization, the presentation of the incidence of taxation, the introduction to interest and the survey of comparative costs, his treatment is unusually good. These merits seem, unfortunately, insufficient to elevate the book to a place of prominence among the twenty-odd elementary texts currently in use.

The reader notes several significant omissions and several significant weaknesses. Among the omissions are such topics as the consideration of the more important theories of the business cycle, a discussion of the regulation of business combinations, a description of the International Monetary Fund and World Bank, an evaluation of specific devices of governmental fiscal policy, and a general survey of the contemporary problems faced by the American economy. Among the weaknesses are the presentation of price (value) theory and the analysis of contemporary labor problems. It is, of course, impossible to know reasons (other than the desire for brevity) for these omissions and scant coverages; even though the reasons are valid, the omissions do detract from the book.

After presenting the framework of economics simply and interestingly in his first chapters, the author plunges immediately into a consideration of demand, supply and price. This seems to have caused considerable difficulty and to have entailed a loss of continuity, for the analysis of price had promptly to be interrupted to insert a section on markets and later on to insert a section on business organization and corporation finance, and the discussion of money and credit which facilitate exchange had to be postponed until the latter part of the book. The advantage of beginning an elementary text with price theory is debatable, for there do seem to be certain

preliminaries which logically and perhaps even sequentially ought to precede.

In addition to this general observation, there are certain contextual errors and procedural inconsistencies which should be mentioned. Professor Whittaker begins his price analysis directly with market equilibrium without giving the reader any background to explain what demand and supply are! (Ten or more pages later a very good, though brief, discussion of demand is given.) The reader is advised that the equilibrium price is that at which demand equals supply; thus he is unable to distinguish correctly between "demand" as a series of amounts at various prices and "effective demand" as the amount taken at a price. Throughout an entire chapter which is devoted to the utility approach to demand, the impression is given the reader that utility is quantifiable and measurable, an impression which is not reformed until (perhaps) too late. Then, in introducing the concept of profit maximization in terms of marginal cost and marginal revenue, the author fails to "prove" the concept, and in fact some of his illustrations indicate something quite the opposite. There are discussions of short and long periods without any indication of specific meanings attributable thereto, and although much emphasis is wisely given to business decisions, there is only slight attention devoted to comparisons of the competitive positions of individual firms. Instead of building his price theory around (say) pure competition, monopoly, monopolistic competition and variants, Whittaker has superimposed them almost as afterthoughts.

The five chapters devoted to income distribution contain certain points which are questionable. Despite the considerable effort to explain marginal productivity in simple terms, the "net" aspect of marginal net revenue productivity is not emphasized, nor is the essential difference between marginal net revenue productivity under purely competitive and monopolistic conditions brought out. In the discussion of rent, economic rent and contractual or business rent are confused. The discussion of interest might have been simplified greatly if the term "capital" (which has so many possible meanings) had been abandoned in favor of another term such as "loanable funds."

The analysis of money is weakened by the omission of an adequate description of the present monetary system of the United States, particularly with reference to what many consider its "mixed up" nature. And the credit discussion is similarly weakened by the inadequate analysis of how commercial banks create and maintain demand deposits which circulate as media of payment, and by the lack of emphasis on the importance of excess reserves in the process of credit expansion. In the discussion of international trade, no satisfactory attempt seems to have been made to present the basic economic arguments for free trade in refutation of the protectionist arguments.

Although one should not expect the same completeness and detail from a text designed to serve the purpose which Professor Whittaker intended and a text which has a broader goal, it is almost impossible to prevent a knowledge of the latter from influencing the evaluation of the former. As the basis

for a brief, general study of economics, Professor Whittaker's book would seem to serve adequately. However, as the basis for a more complete course (more than a single semester), I fear that it presents too many serious shortcomings.

MERTON W. ERTELL

*The University of Buffalo*

*Beyond Supply and Demand—A Reappraisal of Institutional Economics.* By JOHN S. GAMBS. (New York: Columbia Univ. Press. 1946. Pp. xii, 105. $1.60.)

"This is a book about the theories of Thorstein Veblen and of other economists who have been inspired by his work," that is, the institutionalists. The author distinguishes the institutionalists from the "standard" theorists by their differences on two principles. Institutionalists accept the principle of coercion or aggression as the dominant theme of economics rather than competition. This leads to corollary differences between the two schools so that the institutionalist:

(1) Denies the automatic organization of economic society;

(2) Regards money as the nucleus of complex forms of human behavior rather than as a unit of calculation;

(3) Distinguishes between the nature of pecuniary and industrial employments—the jobs of making money and making goods;

(4) Emphasizes the evolutionary or institutional factor, that is, that politics may determine economics through a change in institutions, whereas standard theorists regard government interference in economics as perverse. A second identifying principle of the institutionalists is the general acceptance of the doctrine of organic unity, the Gestalt theory that the whole determines the parts.

The author divides the institutionalists into two groups, the first of which includes Veblen and the second, all the others, the neo-Veblenians. He mentions Commons, Mitchell and Hamilton as leaders in the field and makes incidental reference to a few others, but he makes no effort to distinguish specific economists or specific parts of their work as being institutional or standard.

The institutionalists are shown to have neglected theory and their theoretical progress since Veblen amounts to little. Institutionalists have been devoted to specialized monographic work and participation in public policy formation. This work has been very valuable to the community in the depression, the war, and reconstruction but "one is almost tempted to say that most of the contributions to economics made by institutionalists add up to high-grade clerical work." Meanwhile, Keynes by restating standard theory so that it comes to grips with involuntary unemployment has attracted the young, eager students who might have been attracted to Veblen. The author concludes that institutional economics is run-down at the heels.

Now, he thinks, is the time for institutionalists to see their larger mission and "to develop a useful economic theory, free from egocentrism, of the relative view, and tending instead towards general validity." The author

believes that psychology holds the key to the mystery of economics and that the institutionalists by studying the latest findings of psychology could lay the foundation for a valid general theory adequate to deal with the economic problems of these troubled times.

A fundamental question that the author does not discuss is whether the standard theorists would not be better able to erect the theory of general validity, once having recognized the true psychological nature of human behavior. Admittedly the standard theorists have done a better job in retaining the skills of theorizing by constant practice in the last quarter century. All they lack is the proper psychological foundation for the theory. Why can they not recognize and use the two principles of the institutionalists, the dominance of coercion and the doctrine of organic unity, which the author believes are amply confirmed by the psychologists?

The answer is probably that psychology will never advance to the point where these principles can be scientifically demonstrated as truth. The most that can be expected is that they be treated as dogma. Thus there could be two schools, those who believe the dogma (the institutionalists) and those who deny it (the standard theorists). It would still be necessary for the institutionalists to erect a structure on their foundation to be recognized as a school on an equal footing with standard types of theory.

Many institutionalists, perhaps the majority, will quarrel with the author for tying them directly and exclusively to Veblen. The greater part of the work of the institutionalists on monographs and on public policy can be better tied to the theories of Commons than to the theories of Veblen. As a practical measure they are more interested in the immediate attenuation of conflict of Commons than the Utopian goals of Veblen.

The system of Commons deserves treatment in any reappraisal of institutional economics. Is the system that emphasizes the legal and governmental foundations of economics as seedy today as the Veblen system? Doesn't recent experience indicate that further progress is possible in the day-to-day application of Commons' teachings to economic problems? Can the author's charge that "since there has been no adequate philosophy among economists, there has been no adequate psychology" be leveled against the Commons group, since they make rather large use of John Dewey in the capacities of philosopher and psychologist?

My experience as a graduate student at Wisconsin in the years 1937–39 leaves the impression that the Wisconsin group would fare no better than the neo-Veblenians on the question of how well they have maintained an interest in the theoretical and broader aspects of institutional economics. My fellow students were far more interested in Keynes than Commons, partly because the faculty placed more emphasis on a knowledge of the standard theories in the "prelims" and partly because the students felt Keynes' work had more direct application than Commons' to the problems of economic stagnation. But perhaps more important, with the retirement of Commons from the faculty there was no one left who was interested in developing the broader view of the field. Many disciples remained but each had withdrawn into his speciality.

The author calls for institutionalists to undertake two short-run tasks:

first, to rewrite Veblen and secondly, to write a comprehensive treatise on money. Neither will do much to forward the higher goal of a general theory. Economists capable of working on the general theory are capable of understanding Veblen in the original. Money has been so broadly treated by standard and institutional economists in the past twenty years that an institutional view at this time would add little in the way of a fresh approach.

This is a thin book of the "call-for-action" type. It might better have been a thick book with fuller consideration of this large and important group of economists, but the author has hit at the primary problem of the institutionalists. It is one thing to call for action and another to produce a new Veblen or Commons. More encouraging is to view the book as a symptom of reaction by the institutionalists to the dominance over economic thought enjoyed by the Keynesian "standard" theorists. This book may be a sign of further work in this field.

WILLIAM F. KENNEDY

*University of California, Santa Barbara College*

## National Economies

*Gosudarstvenny Byudzhet SSSR.* (The State Budget of the U.S.S.R.) By N. N. ROVINSKI. (Moscow: Gosfinizdat. 1944. Pp. 385. 21 rubles.)

Second only to the overall economic plan, the budget of the U.S.S.R. serves as a basic instrument for regulation of the Soviet economy and the attainment of efficient utilization of available resources. The Soviet budget, in fact, is really the summation of the national financial plan which parallels *the basic economic plan* (expressed mainly in physical and constant ruble terms) and helps enforce "control by the ruble" as a means of insuring economic operation and use of resources.

The volume reviewed here was prepared as a text for courses in Budget Planning and Finance in the Soviet Institute of Finance and Economics. Designed to help train financial and economic planners, the book considers the Soviet budget from a very general point of view, paying a good deal of attention to the reciprocal relationships between the budget and economic activity in different parts of the economy, as well as to the purely administrative aspects of budgetary planning, composition and execution.

All parts of this volume will serve as useful and informative reading for foreign students of the Soviet economy since Dr. Rovinski presents much material that is hard to get outside the U.S.S.R. because it is scattered among a number of relatively inaccessible specialized volumes. It should be noted that this volume is one of the most readily available of recent Soviet economic publications in this country, copies being available not only in New York and Washington, but also at Harvard, Syracuse and a number of other university libraries. Parts I, II, and V are probably the most important sections and are discussed briefly below.

In Part I, Dr. Rovinski outlines the general structure of the Soviet budget, conceived of as the totality of the budgets of all governmental units. He presents a good deal of interesting information on the relationships between

the all-union, republic (R.S.F.S.R., Ukraine, etc.), and local budgets, both as regards expenditures (whose pattern is determined by the different functions of each governmental unit) and as regards the division of tax income, the largest part of which for all budgets comes from the national turnover (sales) and profits taxes. In the division of tax income between different levels of government, an effort is made to have the share of republic and local budgets depend to a substantial extent upon the success of enterprises located within their borders. By this means, the Soviet planners seek to ensure the cooperation of authorities below the all-union level in the effort to maximize output.

Part II treats the relationship between the planning of government expenditures and operation of enterprises subject to economic accountability (*khozraschot*). The core of this relationship is the fact that these organizations (industrial plants, retail stores, etc.) are both major sources of revenue as collectors of the turnover tax and earners of profits from which the profits tax is taken, and recipients of government funds in the form of subsidies, if necessary, as well as in the form of investments for increasing working and fixed capital. To clarify this reciprocal relationship, Dr. Rovinski gives a detailed discussion of the financial planning and management of *khozraschot* enterprises. Particularly interesting is his discussion of how present and future profits are estimated as guides to economic planning. This section provides a good deal of insight into Soviet accounting and planning practice, and helps make very concrete the notion of *khozrachot*, as it actually operates in the Soviet economy.

In Part V, Dr. Rovinski gives a detailed picture of the actual execution of the Soviet budgets, indicating not only the institutions involved in the mechanism of revenue collection and expenditure, but also the Soviet procedure for continuous check upon the fulfillment of the budgetary plans. The system of credits through which budget allocations are made available to different branches of the Soviet economy is discussed in full detail, both from the point of view of the banking system which extends credits and from the point of view of the major economic organs (ministries) which have discretionary powers over the allocation of funds assigned them. The role of the Ministry of Finance in supervising the execution of the budget is made clear in a fashion which indicates that this ministry ranks with the Gosplan as a major instrument for state control of the Soviet economy.

In view of the illuminating picture of the Soviet financial system presented in this volume, it is to be regretted that its contents are available only to those who can read the Russian language. It is to be hoped that the time is not far distant when means will become available to permit the publication in English of this and other basic Soviet studies.

HARRY SCHWARTZ

*Syracuse University*

*Asia Between Two World Wars*. Vol. I, *Proceedings of the Graduate Seminar on Economic Problems of Modern Asia*. By J. F. NORMANO. (New York: Iranian Inst. and School of Asiatic Stud. 1944. Pp. xi, 89. $2.00.)

The late Dr. Normano described this brief study as "an interpretation" in which he would endeavor to place "facts and ideas into a somewhat fresh

pattern." Most attention is given to developments in China, Japan, Asiatic Russia and India, although there are references to other areas in the Near and Far East. The author discusses the economic "process" and its "forms" before considering what he terms the "moving frontier" and industrialization in Asia. He then describes the conflict of economic ideologies taking place in Asian countries, and influences that work toward "a synthesis" rather than the adoption of a particular form such as private capitalism. Throughout the volume factual and descriptive materials are used only illustratively.

*Asia Between Two World Wars*, in the reviewer's judgment, is interesting chiefly for its discussion of ideological conflicts in the rapidly changing economies of the East. The author describes the resistance in eastern countries to *laissez-faire* capitalism, stemming from traditional economic forms and from such cultural mores as family, caste, and clan. Similarly, while the Soviet experiment is influential, it encounters serious cultural opposition.

In Normano's view, China and India, for example, will attempt neither a capitalistic nor a Soviet type of economy. "Asia not only resents rugged individualism, but objects at the same time to the full suppression of the individual by the state." The alleged "individualism" of the Chinese does not exalt the significance of the person as such, but rather, stresses the family, local government by family heads, and the guild form of associated activity. India, similarly, has communal tendencies antithetical both to western capitalism and to an all-powerful state. "Asia's vision is the 'individual in the collective'."

Japan is discussed in a separate section in which Dr. Normano concludes that it is incorrect to regard the economy of modern Japan as capitalistic. He views the Japanese economy as a "combination of social feudalism and technological industrialization." He refers approvingly to Admiral Mahan's statement in 1900 that Japan, in exception to the Asiatic mainland, had become Teutonized. Normano does not, however, discuss whether the development of China or other eastern countries will result in a synthesis resembling that of Japan.

The discussion of the frontier movement and industrialization in eastern countries contains interesting references to particular developments, and is sprinkled with quotations. However, the materials are poorly organized, and the reader is provided little analysis.

John D. Sumner

*University of Buffalo*

## Economic Systems; Postwar Planning

*Scientific Man* vs. *Power Politics*. By Hans J. Morgenthau. (Chicago: Univ. of Chicago Press. 1946. Pp. vii, 245. $3.00.)

The purpose of this oddly titled and ambitious volume is to demonstrate that "the belief in the power of science to solve all problems and, more particularly, all political problems which confront man in the modern age" typifies "a general decay in the political thinking of the Western World."

The author undertakes to show "why this belief in the redeeming powers of science is misplaced, to point to the elements of philosophic and political thought from which this belief has arisen and in which it manifests itself, and, finally, to indicate those intellectual and moral faculties of man to which alone the problems of the social world will yield."

The argument of Professor Morgenthau can be briefly summarized. From the seventeenth century to the present, rationalism has represented an increasingly powerful current in Western thought. Dazzled by the success of the natural scientists in solving problems of the physical world, we have fallen victim to the delusion that "science is able, at least potentially, to solve all the problems of man." "Whatever else may separate the White House from the Kremlin, liberals from conservatives, all," says the author, "share the belief that if not now, at least ultimately, politics can be replaced by science, however differently defined."

The "dogmatic scientism of our age" has produced "intellectual confusion, moral blindness, and political decay." It has "misunderstood the nature of man, the nature of the social world, and the nature of reason itself." In assuming that the world is governed by laws which are accessible to human reason, it ignores the infinitely intricate and complex character of social phenomena; it seeks to minister to the ills of the body politic with oversimplified panaceas which are doomed to defeat and frustration. "Politics," the author tells us, "is an art and not a science." An understanding of political problems must start with the assumption that politics is rooted in the lust for power which is common to all men. To eliminate it is beyond the ability of any political philosophy or system. "What is required for its mastery is not the rationality of the engineer but the wisdom and moral strength of the statesman." We must beware of the social reformer, the planner, the expert, the braintruster, and all the apostles of pseudo-scientific *nostrums*. The basic political problem in every society revolves around the distribution of power, and that problem "can be solved only by political decision and not by scientific devices." "There is no escape from the evil of power." Let us then entrust our tragic destinies to statesmen who have the wisdom and insight to recognize the lesser evil, who can "gauge accurately the distribution and relative strength of opposing forces" and who can "however tentatively, anticipate the emerging pattern of new constellations." "The achievement of the wisdom by which insecurity is understood and sometimes mastered is the fulfillment of human possibilities."

Despite eloquent passages and robust controversial writing of a high order, this volume leaves the impression, in Mr. Justice Holmes' phrase, of "churning the void to make cheese." Naïve rationalists, if there are any left, should find the book a healthy irritant. But this reviewer cannot escape the feeling that the author is beating a dead horse, and that the very war of words upon which he has embarked has led him in the direction of exaggeration and overstatement. "The limitless character of the lust for power," upon which he constructs his psychology and politics suggests the very kind of rational simplism against which he is constantly inveighing. Politics is a struggle for power, but it is also more than that. The reconciliation and adjustment of the conflicting interests and ambitions of individuals and

groups in both the national and international community are the very essence of the political process. It is in this area that the really difficult problems of coping with the irrationalities and bewildering complexities of the social world present themselves in their most challenging form. To prescribe, as Professor Morgenthau does, the wisdom and the intuition of the statesman in meeting these challenges and to drop the matter there, hardly carries us very far. In fairness to Professor Morgenthau, it should be recorded that his self-proclaimed object was to "picture the disease," and not to "cure it." If the dominant impression which one carries away from this book is that of a tangential crusade in which straw men are vigorously demolished, the explanation may be that Professor Morgenthau attributes rather more innocence to his professional antagonists than can properly be credited to them.

MERLE FAINSOD

*Harvard University*

## National Income and Product; Income Distribution; Consumption Statistics

*Studies in Income and Wealth*. Vol. 8. By Conf. on Research in Income and Wealth. (New York: Nat. Bur. of Econ. Research. 1946. Pp. xiv, 297. $3.00.)

The proceedings of the Conference on Research in Income and Wealth provide an interesting reflection of the changes in the center of interest among those working in the field. In the first two volumes, embodying the results of the meetings of 1936, 1937 and 1938, methodological articles predominated. In Volumes III to VII, the main emphasis was on empirical material and problems relating to the national income of the United States. Volume VIII, containing the papers presented to the Conference meeting of April, 1944—unfortunately without a summary of the discussions—is a mixture with, however, more emphasis on international aspects than any preceding volume. Of its eleven articles, three continue the discussions on methods (Taxes, Government Expenditures, and National Income by Haberler and Hagen; The Construction of National Income Tables and International Comparisons of National Incomes by Liu and Fong; Measuring National Consumption by Fabricant); three deal with various aspects of the estimation of the national income of the United States (Family Income and the Income Tax Base by Hart and Lieblein; Estimated Income Distribution in Three Surveys of Consumer Requirements by Noyes and Hilgard; Method of Estimating the Distribution of Civilian Money Income in 1942 by Potter and Rosenblatt); three describe national income estimates for individual foreign countries (Germany by Doblin; Soviet Russia by Studenski; Northern Rhodesia, as an example of a primitive colonial area, by Deane); and two apply national income data to explore problems in international economics, the one in qualitative terms (National Income as a Determinant of International Policy by Smithies) and the other on a

quantitative basis (International Industrialization and Per Capita Income by Bean).

The paper by Haberler and Hagen covers ground that during the last decade has probably been the favorite subject of debate among national income specialists—the treatment of government revenue and expenditure. The analysis, however, is more complete and more systematic than the previous discussions and contains a good deal of new argument, though generally following prevailing opinion, particularly the approach taken by Hicks (*Economica*, May, 1940). Among the innovations is the consistent application of a test of invariance "which requires that the measure of real (*i.e.*, deflated) national income should be invariant to all purely institutional, monetary and price changes." The far-reaching implications of this test for many national income problems are not explored in this article—and this is not necessary for its purpose—but the authors use the test effectively in settling several controversial questions in the treatment of the government's contribution to the national income. Starting with the definition of the government's contribution to national income as the money value of the government's final output, there are two main questions to be settled. First, the determination of what is final output, which necessitates a decision as to what is to be excluded as transfer payments and as intermediary output; and secondly, how final output is to be valued. On these much debated controversies the authors take the following position: They choose payments by the government to factors of production as the basis of valuation in preference to tax receipts. They decide that government interest outlays should be included in national income only in so far as they constitute payment for current use of physical capital and hence exclude interest on the federal debt as a transfer payment. They come out for the distribution of government payments between intermediate and final products on a case-by-case basis, the decision depending upon the nature of the government service rendered, though they advise dropping this distinction in international comparisons because of the difficulties of allocation. War expenditure is to be regarded as a category of its own, akin to consumption and hence is to be included in national income. Some of the ground gone over by Haberler and Hagen is also covered, although in less detail, by Liu who generally comes up with the same conclusions. The difficulties of fitting the government contribution into a calculation of real national income through deflation of the original values are recognized. However, only an admittedly unsatisfactory compromise is proposed, namely, to deflate by "an index of the 'price' of government output derived by adjusting an index of the prices of privately-produced services believed comparable for differences between the movement of public and private wage and interest rates."

Smithies deals in interesting fashion with the use of national income figures in connection with three problems: (1) the determination of the contribution of member countries to international organizations; (2) the settlement of lend-lease debts; and (3) the setting of reparations.

In the matter of contributions, Smithies concludes that the amounts to be levied domestically should be proportional to each country's supernumerary

income, which is determined, at least for wealthier countries, as the income exceeding the level at which savings become zero. The additional problem created by the need of transferring the contributions into an international currency, in practice generally the more difficult matter, is specifically excluded from the discussion. Smithies' suggestions even though open to many objections, are of particular interest in view of the recent difficulties encountered by the United Nations Organization in trying to assess one-half of total contributions on the United States.

The solution proposed in the settlement of lend-lease debts is rather inconclusive, and possibly cannot avoid being so. Smithies takes as the criterion whether the countries involved maximized their war effort, which means whether the ratio of war expenditures to national income reached 50 to 60 per cent, the level which in practice has been found to be associated with the maximum sustained effort of any belligerent in World War II. This test probably means that if the debtor country did reach such a level of war expenditures, there should be no payment for lend-lease supplies consumed during the war, leaving open the question of how to settle for lend-lease goods in existence or delivered after the war.

The discussion of the reparations question shows more clearly than the rest of the article that Smithies' contribution was written nearly three years ago. It is still mainly concerned with the problems as they presented themselves after World War I. There is no discussion of capital or labor reparations which present most of the difficulties we are now struggling with. The concrete part of the discussion is mostly concerned with Germany. The conclusions here are that the amount demanded as reparations will have to be a compromise between the maximum that can be squeezed out of the country and the amount which will maximize the chance of democratic government in Germany; that reparations should be low during the period of reconstruction and thereafter should be set at a constant or decreasing figure; and that they should be stipulated in commodities.

For many readers, Bean's paper on the relation between industrialization and national income will be the most interesting part of the volume, particularly for those who enjoy broad vistas. The observation that in any country income per head is higher in industry, and most other occupations, than in agriculture is, of course, not new; nor is the one that predominantly industrial countries have a higher income per head than countries that are predominantly agricultural. Bean's contribution is to go beyond these generalities, but he would be the first to admit that all his paper could do was to indicate a vast field for research and to take the first steps toward a thorough exploration of the ground.

Bean uses two main sets of data, first, Colin Clark's figures for thirty-five countries on the proportion of the labor force engaged in agriculture and *per capita* national income in 1925–34; and second, the proportion of the labor force in primary, secondary and tertiary occupations and the per head national income in 1939 in the forty-eight states of the United States. The correlations are shown only graphically and no numerical values of the equations are given. In all cases it is found that national income goes up

446 THE AMERICAN ECONOMIC REVIEW

rapidly as the proportion of the population engaged in agriculture falls, although the relation varies for certain groups of countries or states. Speaking very broadly, Bean summarizes the relationship existing among the thirty-five countries—it is curvilinear and slightly convex downward—by claiming that a 20 point advance in the stage of industrialization (*i.e.*, a 20 percentage point decline in the proportion of agriculture in the labor force is associated with a doubling of income per head. Within the United States a 10 point decline in the proportion of primary employment is accompanied by an increase of about $100 in income per head, the four regression lines representing 25, 10, 8, and 5 states respectively, showing only moderate curvature.

Bean's chief conclusion is that a reduction of the world's agricultural population in the decade after the war to a maximum proportion of 40 per cent (30 per cent in the Western Hemisphere) of the labor force—involving a shift of probably as many as 200 million workers, chiefly in China, India and the Soviet Union—would increase the income of the world by nearly $150 billion in 1925–34 prices (something like $250 billion in present prices) equivalent to a rise by about 60 per cent above the 1925–34 level. Even in the United States such a shift would mean an increase in the 1939 income by nearly one-fifth. It is evident that such a large-scale industrialization of a great part of the globe would require very large amounts of internal capital formation in the poorer countries and tremendous capital imports from wealthier countries. How immense the magnitudes involved are is shown by Clark's calculation—who after all uses material and methods similar to Bean's—that the capital import requirements of Asia alone in the 15 years following the end of the war would amount to $159 billion in 1925–34 prices (*The Economics of 1960*, p. 113). Most of these immense sums would have to be furnished by the United States. Are they likely to be forthcoming?

Bean's findings and suggestions are certainly thought provoking, but they obviously raise more questions than they answer. First, are we to regard the relationship between the proportion of primary employment and income per head shown in the scatter diagrams as reflecting a strict functional connection? If so—and that would seem to be Bean's inclination—much work remains to be done on deciding whether the underlying estimates are accurate and comparable enough to bear the heavy burden put on them; to ascertain whether the figures, in their rough or their refined shape, show a sufficiently close scatter to meet the usual statistical tests; to find an adequate rationale for the grouping of countries (Bean generally groups on a basis of geographic contiguity but with some exceptions that are rather difficult to understand, such as Greece and Portugal in Chart I); to find out why the relationship does not apply to a substantial proportion of the thirty-five countries (in Chart I, seven of them are not associated with any of the 5 regression lines around which the remaining twenty-eight are grouped, and at least one of these lines, that connecting United Kingdom and Belgium, is pretty far to the left of the others, a fact which Bean explains by the large proportion of mining, another occupation with low income per head, in these two countries); to explain why, according to the

present data, the national income per head in countries with the same proportion of agriculture among the labor force may vary by more than two to one (as is, for instance, the case of Czechoslovakia and New Zealand, which with an agricultural population of about 25 per cent have national incomes per head of $214 and $457 respectively); and to determine whether it is not necessary to introduce additional variables, not associated with the distribution of the labor force by industry, to obtain a satisfactory fit.

There are other questions which immediately come to the mind. For instance, to what degree does the relationship in income per head between primary, secondary and tertiary occupations vary from country to country and to what factors are these differences due? How long does it take for a country to shift a given distance along the curve; does this period differ between countries and does it depend on the degree of industrialization already reached? How far does the relation between shifts over time in the distribution of the labor force between industries and real income per head within individual countries corroborate the relationship now based exclusively upon a comparison between countries during the same calendar period, a question which Bean discusses very briefly in the case of the United States and the U.S.S.R.? Further, do the proportions of primary, secondary and tertiary occupations really measure industrialization; in particular, can it be said that the proportion of employment in agriculture measures the stage of industrialization and the proportion of employment in trade and services its pattern? And finally, the basic question: Why is national income per head in secondary, and still more in tertiary occupations, so much higher than in primary industries now as well as almost 300 years ago if we may believe Sir William Petty?

RAYMOND W. GOLDSMITH

*Washington, D. C.*

*China's National Income, 1931–1936: An Exploratory Study.* By TA-CHUNG LIU. (Washington: Brookings Institution. 1946. Pp. xii, 91. $1.00.)

On the ground that a rough indication of China's national product is better than none, Dr. Ta-chung Liu has manipulated the crude data available to derive an estimate of the gross national product of China during the years 1931–36 in current and 1931 prices. The reference to national income in the title of the pamphlet is generic only; no estimates of net national income are presented, for lack of bases for overall estimates of depreciation and business taxes.

Gross national product estimates for twenty-two provinces are made by summing estimates of gross value added for seven main industry groups: agriculture; railroads, communications, and electric power utilities; modern manufacturing industries; mining and metallurgical industries; modern financial institutions; governmental and educational institutions; and others. The deficit in international account for each year is then subtracted "so that the result would represent the gross national product of the individuals and organizations in China" (p. 68). This, however, is conceptually erroneous, since the estimates of gross value added exclude values purchased

from abroad, and include values exported, so that the unadjusted total represents the desired concept.

The gross product for all of China is assumed to be 10.22 per cent greater than that for the twenty-two provinces, to include the product of Manchuria, Jehol, Sinkiang, Mongolia, and Tibet. This percentage is the ratio of the population of those areas to that of the twenty-two provinces. The estimates in current prices range from 21.3 billion yuan in 1934 to 35.3 in 1931; in 1931 prices, from 37.3 in 1934 to 41.3 in 1936.

The methods used and the reliability and extent of the source material used, vary too greatly to be readily summarized. The weakest estimate is that for "other" industries (trade, professions, home industries, domestic workers, etc.), derived by making very rough estimates of the population attached to these sectors, its occupational distribution, and the *per capita* income in each occupation. The total income of these groups, derived from these three calculations, is taken as representing their gross product. The gross product of these groups constitutes from 20 to 25 per cent of the total.

The last chapter compares Chinese gross national product in 1931–36 with that of the United States. A comparison based on exchange rates indicates aggregate product in China one-eighth, and *per capita* product one twenty-sixth, of that in the United States. Substitution for exchange rates of a price comparison based on relative farm product prices at the farm, and adjustments for differences in distribution costs of farm products, in unpaid family services, and in consumption-income ratios, yield estimates of aggregate product one-fourth, *per capita* product one-thirteenth, and *per capita* consumption one-eleventh that in the United States in 1931–36. The *per capita* consumption estimate, in United States 1931–36 dollars, is 37 dollars per year. To support the statement that individuals can subsist on that income, the author cites estimates that relief and a small percentage of non-relief families in the United States did so.

The alternative price index used is open to serious criticism conceptually, but however great its error may be, major adjustment of the original estimates is no doubt in order—for, as Professor Kuznets has observed, if *per capita* income in China or other low-income areas were really as low as indicated, relative to ours, most of the population would be dead within a few months.

The estimates presented in this pamphlet embody a combination of careful detailed analysis and bold assumption. The pamphlet gives us better gross product estimates for China than we have had hitherto; it should encourage the development of better Chinese data in the future.

EVERETT E. HAGEN

*Washington, D. C.*

*Readings in the Theory of Income Distribution.* Selected by a Committee of the American Economic Association. (Philadelphia: Blakiston. 1946. Pp. xvi, 710. $4.25.)

This is the third volume in the Blakiston Series of Republished Articles in Economics and, like the other two, it will prove of great value to all

economists. Thirty-two articles are included covering general Income and Distribution concepts, the Production Function and Marginal Productivity, and Wage, Interest, Profit, and Rent Theory. In addition, the editors have written an introduction which deserves the careful attention of every user of the book.

Though this is obviously an important book, it is not easy to appraise it accurately in more detail. For one thing, thirty-two works written over a period of eighteen years, ranging from such abstract exercises as Professor Hayek's "Mythology of Capital" to such comparatively down-to-earth combinations of theory and observation as Dr. Kalecki's "The Distribution of the National Income," are bound to vary in interest, if not in quality. For another, though the selection gives, as the editors intended, a "tolerably rounded 'presentation' of the field"—a claim which, incidentally, seems too modest—the picture is hardly likely to bolster the complacency of the economist. An economist, reading the volume and aware of the function of economics, can draw little satisfaction from the collection. No coherent account of the way in which the national income is distributed emerges from a study of these pages. An outsider reading it is likely to feel that, as a physicist friend of mine expressed it, "they seem more intent on proving one another wrong than in finding out how it all works." Indeed, the judgment of the editors that "the present state of the theory of income distribution is generally considered unsatisfactory, and it is rightly so considered," is amply and unhappily confirmed in this volume.

But though the distribution problem is not solved, there are high lights, articles that suggest the way in which we should proceed if we are to get the answers we seek. The editors' introduction, which would have deserved a place in the volume if it had been written for a different purpose, is one of them. Dr. Kalecki's article, already mentioned, is another. Those on the National Income and National Product Statistics are useful. Dr. Gordon's contribution which suggests how the profit concept should be adjusted to take account of the modern corporation is helpful. Professor Robertson's "Wage-Grumbles" and "Mr. Keynes and the Rate of Interest," are readable and illuminating. And of course there are others; indeed, each reader is likely to have his own few favorites, and most of the thirty-three will prove suggestive to at least some workers. But hints and suggestions are by no means a fully-worked out analysis and such an analysis is not to be found in this volume nor indeed can it be compounded out of the ingredients contained in it.

While it is impossible to generalize meaningfully about articles so varied in nature, it may be helpful to set down some of the reasons why most of of them contribute so little to our understanding. One of them (in the reviewer's opinion) is that the method of approach is generally faulty. Instead of using simple and measurable concepts and constantly testing hypotheses against observation—a method which has worked well enough in, say, physics or in the analysis of the business cycle or even of commodity price fluctuations—there is an unfortunate inclination to elaborate, refine, wrestle with, and argue over concepts which are immeasurable in the

first place. Serious studies of the distribution of income would be based on analyses of that distribution and that income; but there are practically no data on income and no more on wages, interest, rent and profit. This would not matter, of course, if only the articles had been written with the data in mind. Unfortunately they give no such impression.

A second difficulty is that some of the writers seem to overlook what is being distributed. The editors properly introduce the selection with two articles on the national income but, with rare exceptions, the others are written without reference to the pie that is being cut up. Wages are studied more or less in a vacuum; not only is the analysis well sheltered from a knowledge of any institutional factors; it is also free of any connection with national income theory. In some degree this is also true of the other aspects of the distribution problem. Or, to put this differently, the methods of analysis suitable for microscopic studies are carried over and applied to macroscopic problems. An attempt is made to treat wage determination with an analytical tool devised for the economics of the firm. Modern economists do not explain the general price level by reference to marginal costs and the degree of monopoly alone: they recognize that other determinants are required—specifically those dealing with aggregate demand. It is no more reasonable to discuss the general wage level without reference to the determinants of the level of employment. The theory of distribution will gain significance when it is integrated with the theory of the national income. Meanwhile it remains as the weakest section of economics: and incidentally perhaps the oldest.

But the book as noted has very great merit. The articles selected are often the ones that an economist would like to have at hand. They are also in many cases suitable for assignment to students. A valuable bibliography is appended. The only regret is that the economist has relatively so little to offer on the subject at this stage.

LORIE TARSHIS

*Stanford University*

## Business Cycles and Fluctuations

*The Economics of Disturbance.* By DAVID MCCORD WRIGHT. (New York: Macmillan. 1947. Pp. ix, 115. $2.50.)

Professor Wright's purpose is to discover the basic cause of disturbance in an economy that is assumed to be responsive to the desires of consumers and is expected to achieve other values than mere stability.

If we begin with the problem of why *ex ante* prices tend at times to get too high in relation to disposable income, attention is at once directed to such alleged obstructions to orderly development as the following: hoarding; saving, in any amount or at an improper rate; repayment of bank loans (leading to credit contraction); sellers' policies of including in demanded prices, before the income to cover them has been distributed, such costs as profits, interest, and depreciation charges.

After analysis, however, it is concluded that these difficulties either could be surmounted by the adoption of liberal monetary policies, or would not exist in a continuing stationary economy. The thesis thus emerges that it is growth itself which generates the fundamental (uncorrectable) disturbances. The course of progress cannot always be smooth.

On the monetary side resources for growth in the tool-making (capital goods) industries are provided by savings. What is there to insure that (*ex ante*) savings will get adjusted to an ideal volume of investment? The following sets of possibilities are among those examined.

1. The economy, at all times, has the ability to absorb any amount of capital. It would have such power if new wants and new techniques are substituted for the old in sufficient volume.

2. The social mechanism contains a regulator that automatically adjusts savings accurately to investment requirements.

3. The planning agencies, whoever they may be, scattered or centralized, are able to predict changes in wants with precision by such methods as inferring from aggregate income and its component items.

The reader will note that these conditions pertain rather more to equilibrating than to optimum results. It is one thing to prevent (*ex ante*) savings from going to waste. It is quite another matter, however, to get the degree of capital investment that would be adjudged ideal by the application of some other standard of reference. But in the author's opinion we are not even justified in holding optimistic opinion, about results in an unbuttressed economy even from the point of view solely of the narrower criterion. There will be constant fluctuations in the capital requirements of the economy, and it is too much to expect that intended savings will adjust themselves in rough accordance. The growth of income always brings with it new demands to be satisfied, but, in the short run, the response of consumers to rising income tends to be delayed. As for the automatic regulator that the classical economists thought they had discovered in the interest rate, modern theory has torn to pieces the doctrine that the rate imposes the proper control over the disposition to save.

May it not be, however, that an enterprise economy can be made tolerable by the deliberate use of hitherto neglected devices of regulation? One suggestion of this ilk is that the rate of spending, *i.e.*, the velocity of circulation of the currency, be controlled by such devices as taxing idle bank deposits and stamping common currency. In the author's opinion the use of such controls to ameliorate the general situation might create serious maladjustments in particular sectors of the economy. Forced spending would tend to create artificial prices, perhaps, in the stock market. Policies of "coaxing," as distinguished from "forcing" idle funds into use on occasions of slack, on the other hand, by subduing price and wage rigidities, cannot always be expected to be sufficiently powerful. From all this the further conclusion emerges that about all we can hope for under capitalism is to assure reasonably tolerable conditions with the aid of state-directed compensatory spending.

But doesn't this conclusion amount to a confession that private capitalism is moribund? If it isn't, why should it require so powerful a crutch? In reply, the author argues that there would be conflicting demands, even under socialism. The exercise of authority to ration the flow of consumers' goods or to restrict employment in the tool-making industries, in the interests of stability, would amount to a denial of legitimate consumers' aspirations in particular situations. Like capitalism, if it is to meet the same tests, socialism also would have to rely heavily upon compensatory spending. "Given slack in the productive system" (p. 76), . . . "intensely felt desire for certain durable goods, and a wish to give the consumer what he wants when he wants it, and Lord Beveridge himself with the aid of all H.M. Army, Navy and Marines could not stabilize the construction industry." The basic difficulty besetting capitalism is not its "many headed control of industry" but rather the growth-produced strain on its powers of adaptation.

Professor Wright's findings represent a charmingly brief synthesis of well-known model-derived analyses of the determinants of output buttressed by some "model" explorations of his own. The reader's appraisal of the validity of his theme will necessarily depend upon his estimate of the care that is employed to avoid the well-known pitfalls of this method. No one would deny, of course, the indispensability in the social sciences of the device of consecutive building up from simple and assumed premises. Mental abstraction is our substitute for physical isolation of complicating data. But it is highly necessary, also, never to forget the limitations of the abstract synthetic method. It is always possible that similar results may develop in dissimilar ways, so that conclusions, though logical, are not relevant. Of more importance, however, is the fact that the grant of complete discretion to the thinker in respect to the setting-up of (perhaps quite wild) assumptions clutters up the literature with such a mass of highly conditioned findings as to impose an unintended bias on the layman.

Since Foster and Catching, particularly, such syntheses have generally been set up in such a way as to carry the presumption that the probabilities are all against the occurrence of the reasonably satisfactory. There simply appear to be far more cases in which evil, rather than good, results will occur. Definitions of the good, however, by implication usually assume the necessity of impossible results. In the reviewer's opinion the author's principal service in this volume is to demonstrate this point with unique clarity.

Throughout the work Professor Wright stamps himself as critical and self-exacting. While his methodology is generally Keynesian he is quite explicit, as noted, in insisting that Keynes' psychological law of consumption has general validity only in the short run. He admits the difficulties of adjusting *ex ante* savings properly to a volume of investment that should and must be expected to fluctuate. But he is critical, nevertheless, of the tenets of the mature economy school. Thus "there seem ample poverty and population in the world—notably Asia—to absorb all our investment. . . .

The spark submitted to be lacking is foreign trade and foreign investment" (pp. 88–89). A little more clearly each day it is beginning to appear that economists are getting around to giving between-the-war errors of policy their proper measure of responsibility for current misfortunes.

HAROLD L. REED
*Cornell University*

*Monetary Policies and Full Employment.* By WILLIAM FELLNER. (Berkeley: Univ. of California Press. 1946. Pp. xx, 268. $3.50.)

As its title indicates, this book deals with (1) the conditions necessary for stable full employment—or at least high-level employment, and (2) the efficacy of monetary policies in achieving and maintaining continuous high-level employment. Most of the book, and in my opinion the most interesting part of it, deals with the first topic; the treatment of monetary policies is shorter and contains fewer new ideas. This review will emphasize the more original and controversial aspects of the book.

Though Professor Fellner employs a consumption-savings-investment framework for his analysis of employment levels, he rejects some of the reasoning and conclusions that are ordinarily associated with this approach. He is especially skeptical of the "secular stagnation" and "under consumptionism" theses, and he is critical of the theories that make the rate of investment depend on either the current rate of consumption or the rate of change of consumption. He points out that investment " . . . is determined partly by the amount of investment that is undertaken in order to supply increased output for consumption and partly by the amount of investment that is undertaken to supply increased output for further investment" (pp. 29–30). "If all investment was intended to be for consumption rather than for further investment, the economy would be contracting without interruption, provided that the marginal propensity to consume is smaller than one" (p. 29). Thus, the willingness "to invest for further investment" occupies a very important position in Fellner's employment and cycle theory. It is unfortunate, therefore, that he does not define the concept more clearly and that he fails to describe in more detail the determinants of "investment for further investment."

Fellner also questions (in Chapter III) the "stagnationist" and "mature economy" theories that are usually associated with Professor Hansen's name. He doubts that population growth has exerted any substantial stimulating influence and cites statistics suggesting (1) that over several decades the marginal propensity to consume has shown no secular decline, (2) that over this period the *per capita* marginal propensity to consume has not been less than that of the population as a whole, and (3) that the size of the family has but little effect on the average propensity to consume within a given income class. He also questions the stimulating effects of technological changes and new resources (pp. 73 ff.). His judgment is that " . . . the material considered in this chapter fails to lend plausibility to the population growth argument and to the technological argument of the stagnationist school of thought. Other materials may not; and untried multiple correla-

tion hypotheses may yield different results to some ingenious investigator" (p. 83).

The analysis of general wage policy and its relation to employment points out that Keynesians fail to consider the effects of wage and profit levels on the willingness "to invest for further investment," and it concludes that under certain circumstances general wage reductions may be expansionary in their effects on employment.

In addition to the controversial materials already mentioned the book contains interesting discussions of the effects of monopoly on employment, the effects on employment of a changing composition of output, the reasons for rigidities of interest rates, the interest-elasticity of the demand for liquidity, shifts of liquidity preference, the effects of monetary policy on liquidity preference and interest rates, and the wage and price control problems that would probably result from a policy of guaranteeing full employment rather than merely high-level employment. Recent history underlines Fellner's warning that the maintenance of full employment without inflation in an economy with many powerful special-interest groups is a difficult task and may not be possible without the use of direct governmental controls that are distasteful to both workers and employers.

Though some of them will often disagree with its conclusions, professional economists should find this a stimulating book. Both its contents and its style are probably too difficult, however, to commend it to the general reader or to undergraduates.

LESTER V. CHANDLER

*Amherst College*

*Public Investment and Full Employment.* Studies and Reports, New Series No. 3. (Montreal: International Labour Office. 1946. Pp. ix, 348. 7s. 6d.)

The International Labour Organisation has taken an active interest in a counter-cyclical public investment policy ever since its first session in 1919. Resolutions concerning national planning and international cooperation with respect to public works were adopted in 1937 and 1944–45. The present volume was prepared by Benjamin Higgins for the International Development Works Committee of the ILO.

The book is based on the assumption that in a number of countries—called the "excess-savings countries"—there will be a problem of unemployment "arising out of a deficiency of effective demand" (p. 9). The author believes that besides public investments there should be investments timed in accord with an anti-cyclical policy. Public investment policy, in the opinion of the author, should aim not only at stabilizing the construction industry, but beyond that should make its contribution towards stabilizing the economy as a whole.

The whole book discusses the possibilities and difficulties of such a policy. It is undoubtedly the most comprehensive examination available in this field. It presents analytical arguments, examines administrative and technical procedures, surveys the experience of various countries with respect

to the effect of public works employment policies during the Great Depression, reviews the plans and administrative provisions made by various countries in preparing for use of public investment policies in the postwar world. It concludes with a number of recommendations which have been approved by the ILO committee for which the book was prepared.

These recommendations include: The timing of public investments for counter-cyclical purposes with consideration for the varying needs of different regions in a country. Not only the volume and financing of public investments, but also of public services should be varied in accordance with economic needs. Capital outlays and operating expenditures should be separated in government budgets. A government should plan and prepare public investment programs for five to ten years, plus additional useful programs to be used as a reserve. Agencies for coordination of public investment programs should be established. The programs should include financial aid for regional and local governments.

The author of this book and the committee are aware of the difficulties of an anti-cyclical public investment policy, but they believe that these difficulties can be overcome by appropriate institutional arrangements. They believe that the proper timing and financing of public investments have to play a major role in an effective full employment policy.

In appraising these claims of the author, it must be noted that he uses, at least in part, a rather broad concept of public investments. At times he seems to include "human improvements or public services" (p. 35), or extraordinary or non-recurring government expenditures (p. 50), or even "public investments in stocks (inventories)" (p. 251) as anti-cyclical policies. Included in public investments are, of course, investments in government-owned enterprises. Thus a considerable part of the much quoted Swedish public works program consists in capital expenditures of government-owned enterprises. "The availability of such large public enterprises, into which new funds can be poured, clearly facilitates the policy of timing public investment to offset depressions" (p. 208). Besides this incidental remark the author does not analyze in detail the interrelationship between the economic and organizational structure of the economy on the one hand, and the scope of public investments on the other hand. The relative importance of the area of public investments varies in different countries. In recent discussions in Great Britain it has been pointed out, for instance, that the nationalization of certain industries would extend the opportunities of the government to influence investments.

The author is aware of the time required for getting plans for public investments prepared and authorized. To a considerable extent he relies on variation in the method of financing public investments in addition to the more limited variation in volume. He recommends the use of a capital budget and regards the Swedish budget arrangements as the nearest approximation to an ideal fiscal pattern.

Very valuable is the author's survey of the arrangements made in various countries for coordination of national and local public investment planning and for policy coordination on the national level.

With respect to the United States, the author quotes the concern of "some officials" that the country is left "with no adequate means of stimulating, guiding, and integrating public investment for the nation as a whole" (p. 275). He also concludes from his survey that "in the United States . . . the volume of carefully planned work that can be provided in the next few years will fall short of needs" (p. 275).[1]

As contrasted with opinions widely expressed only a few years ago, there exists at present considerable skepticism about the effectiveness of public works as an anti-cyclical device in this country. This skepticism does not seem to exist to the same extent in other countries which have advanced further in preparing for a coordinated public investment policy. This book serves a good purpose by describing the work done or not done in this respect in various countries.

GERHARD COLM

*Washington, D. C.*

*Inflation and the American Economy.* By SEYMOUR E. HARRIS. (New York: McGraw-Hill. 1945. Pp. xxiv, 559. $4.00.)

As Professor Harris points out on his first page, an adequate study of wartime inflation requires a study of the whole economy, and likewise a forward look at the prospects of inflation requires forecasts of many variables. This is not, however, because inflation is a symptom of a general breakdown of the economic body, as he suggests. On the contrary, during the entire war period and so far in the postwar era, the American economy has displayed extraordinary vigor, whether measured by the volume of activity, the size of the product, the standard of living of the community, or the capacity of the economy for rapid readjustment. A complete description of inflation must cover much ground, simply because all kinds of activity are affected and nearly all quantitative measures are distorted by it; not becuse it is symptomatic of any malady other than the inflation itself.

Professor Harris' book meets the requirements which he sets. It offers an extremely useful compendium of economic data that have been affected by, or have helped to account for, the inflation. He is justified in claiming that his 154 tables and 116 charts constitute perhaps the most comprehensive statistical history of our war economy. That it is equally adequate as a "blueprint for the future" is not so clear. This is not due to any failure on his part to attack the right problems. He is just as assiduous in listing and discussing the causal forces which seem to operate as he is in assembling data. But his eclecticism sometimes interferes with clarity; he is so tolerant of conflicting views that he seems at times to contradict himself, or if he does indicate his own view he fails to make clear wherein the opposite case is the weaker. For example, his treatment of high wages as a deterrent to production does not seem fully consistent with his insistence

[1] When the author refers to "needs" he means both the need for particular public investment ("product effect of investment") and the effect on employment and production as a whole ("process effect of investment"). This is a very useful distinction.

on high wages as a source of market demand (see pp. 310, 317, 369, 528, 539). Usually he associates the need for rising wages with advancing productivity, but on page 369, advancing wages "are not a deterrent so long as demand is high enough" to pay them; that is, so long as prices move up with them. I think the analysis here is basically correct, but I cannot reconcile it with his general attitude toward price controls, which he would maintain far into the postwar period, and wage controls which I judge he regards as purely a wartime expedient.

The principal difficulty I have with the book arises from a lack of precision of statement. His definition of inflation (p. 7) illustrates this "fuzziness." It reads: "By inflation in the civilian economy we mean a rise of prices which results from an excess of demand for civilian goods over the supply of these goods made available to the civilian population at prices of the preceding period." So far as I can see, this means, "By inflation we mean a rise of prices" since a rise of prices can hardly result from anything else than an excess of demand over supply at prevailing prices. Yet he claims that this definition is more "sophisticated" than earlier definitions which associate inflation with an excess of money. Those definitions at least gave the term "inflation" some content beyond "rising prices."

Other concepts which seem to me too vague to be useful are those of taxes on "surplus," as distinguished from those which fall on consumption, investment and costs (pp. 459, 525); the distinction between expansion of currency hoards and a decline in the rate of turnover of currency (p. 190); the idea that the rise of savings during the war was a cause of the decline in demand for consumption goods rather than a different way of describing the same thing (p. 2). There is apparently a contradiction in lines 4–9 of page 475. The first sentence states that a reduction of business taxes will be justified *only* if it is clear in advance (which it hardly can be) that it will result in large increases of investment, risk-taking, and jobs; the second sentence indicates that such reductions should promptly be passed on in wage increases and price reductions.

In his discussion of the relative amounts of bonds sold to individuals and to banks, Professor Harris seems to think of the bank expansion as something independent of individual and corporate saving. But the savings include the increased volume of bank deposits owned by individuals and corporations; the banks are mere middlemen between the savers and the Treasury.

I have difficulty also with the idea expressed on page 544 that a reduction in gross national product is a cause of price deflation. If the decline is a reflection of falling prices it is an evidence of deflation rather than a cause; if it reflects a decline in output it should be inflationary, to be consistent with Harris's treatment of supply factors throughout the book.

In looking forward Professor Harris emphasizes the danger of inflation, but he is much more apprehensive of deflation. He was one of those who anticipated eight million unemployed by the spring of 1946. He recommended the launching of a public works program for the immediate postwar period, and he cautioned against too rapid sales of surplus goods.

He recommended that price control should be maintained till supply caught up with demand at substantially the price levels of 1945, but he offered no analysis of the increase in production that would be necessary to bring about this balance. He suggested some new controls of distribution, increased provision for the unemployed, and some additional powers for the Federal Reserve System. The latter, however, appear to have been designed to insure that there should be no deficiency of money, rather than to protect against an excess.

CHARLES O. HARDY

*Washington, D. C.*

*Spending, Saving and Employment.* By H. GORDON HAYES. (New York: Knopf. 1945. Pp. 259. $3.00.)

Professor Hayes has written a book with a noble purpose: to explain briefly and simply "the cause and cure of unemployment." It is essentially a tract for the times, consisting of a straightforward discussion with one chart and no tables. It should be a useful book. It is clear and simple—almost too much so, in view of the complicated nature of some of the propositions and relationships he discusses.

The emphasis in the book is upon the necessity for supporting and stimulating the consumption component of Effective Demand in order to achieve or maintain full employment. Professor Hayes is in the Keynesian camp in recognizing the deep and fundamental role of hoarding in our economy, and in emphasizing the effect of the level of, and changes in, savings and investment to the level of, and changes in, employment and income. He contends that "the savings-investment process as we practice it leads inevitably to unemployment. It prevents the sale of consumer goods from being sufficient to utilize present producer goods and thus destroys the demand for further investment" (p. 28). His emphasis is upon the proposition that consumption is not great enough, particularly at the top of the boom, to support investment; rather than upon the related proposition that a decline of investment during the boom results in a decline of consumption.

Professor Hayes argues that the marked impasse to which the savings-investment process brings us may be postponed or avoided during certain periods by sales on credit, exports in excess of imports (net exports), and fortunate inventions, but that these cannot enable us to avoid it (p. 29). In such a situation we need: (1) first and foremost, an increase in the national propensity to consume; (2) promotion of investment; and (3) to the extent that the first two alternatives do not promptly offset income by consumption and investment, an extension of government spending, including what may properly be called government investment. If a program of governmental spending is required, it should not be limited to non-commercial fields, since this is likely to waste a good part of the expenditures. It should certainly be extended to utilities and railroads (pp. 196–206).

The primary emphasis in this armory of weapons upon consumption rather than investment distinguishes Professor Hayes and the various re-

ports of the Temporary National Economic Committee[1] from Keynes and Professor Hansen. When major measures to attain (or keep) full employment are required, Professor Hayes would start by facilitating consumption. This would enable us to sell the goods and services that can be produced by the plants we already have; and it might even act to expand (or prolong) investment. It should be noted, however, that no proof is offered, theoretical or empirical, of this proposition, nor is any indication given of *how much* consumption would have to be expanded under various conditions to accomplish this result.

Professor Hayes' discussion would be clarified if he distinguished more clearly the significance and application of his analysis at the peak of the boom, during a depression, or at any time in between. This would result in a much more systematic discussion. At the present time, when we are at or near the peak of a boom, his analysis would imply that we should tilt the balance in favor of consumption as soon as employment and national income begin to fall. But should this be done because investment will fall off and because consumption will act as compensation? The present situation may well call for a different diagnosis, even if we end with the same prescription. It is possible that the investment boom will not peter out for some time, with the exception of that in inventory, but that consumption, trapped by rising prices in relation to incomes, will weaken.

Economists writing books on this subject usually end up by mentioning somewhere, sometime, with greater or less emphasis, the same causes and the same remedies. This does not mean that differences among them are negligible, since their differences of emphasis are fundamental. Some place primary emphasis upon measures to increase consumption, investment or both, and are in favor of measures to increase competition, reduce price distortions, reduce wage and price rigidities, and increase available business information (to mention only a few) as supplementary measures to reinforce the primary measures. Other economists are in favor of the latter set of measures, with the thought that consumption-investment measures are unnecessary, or even harmful. No one can doubt in which camp Professor Hayes lives.

OSCAR L. ALTMAN

*Washington, D. C.*

*Economic Stagnation or Progress.* By ERNST W. SWANSON and EMERSON P. SCHMIDT. (New York: McGraw-Hill. 1946. Pp. x, 197. $2.50.)

This book, according to its authors, who are research economists with the Chamber of Commerce of the United States, is an attempt to show that many economists "have not accepted the maturity-oversaving-deficit-spending thesis." This is done by quotations often two or three pages in length from writers such as Ellis, Hayek, King, Haberler, Knight, and Terborgh. Ninety-two names are listed in the author's index. The two author-editors confine their contributions to three of the twelve chapters

[1] See *Final Report of the Executive Secretary to the Temporary National Economic Committee* and the *Final Report of the Committee.*

and to running comments on the quoted material.

The authors have performed a good service in bringing within one book so much material that bears on the general question at issue and that, in most cases, illuminates it. But, to this reviewer, the readings and comments do not alter the conclusions of the "Keynes-Hansen school." One can, of course, make nonsense out of Hansen's "maturity" concept by interpreting it more rigidly than he ever intended, or by naïvely assuming, as Professor King does in the material quoted and as the two authors do, that the need of the poor is an economic demand. Likewise, Keynes' argument ruling out any connection between the rate of interest and the volume of savings can be shown to be faulty without at all destroying the validity of his liquidity preference concept. There is far too much of an effort all through this book to make refinements of an argument sound like rebuttal.

Indeed, the two authors themselves lay a basis that logically limits their tasks to refinements of the thesis they attack. Individuals, they say (p. 3), "may either spend, invest, or hoard" their income. And (p. 11) "to have it [full employment], there must be economic progress." Certainly these two propositions can only mean that if there is not sufficient economic progress —investment—portions of incomes will be hoarded and the phenomena of "under consumption," "oversaving," and perhaps "stagnation" will appear. This is essentially all that the Keynes-Hansen school has ever said. Hence, our authors are basically Keynesians.

They think of themselves as belonging to the pre-Keynesian tradition, but the economists of that period did not relate the hoarding of money to the problem of employment. References to hoarding appear only sporadically in the literature and then principally as asides in discussions of the functions of money or the equation of exchange. The dominant view was that saving was correlated with the rate of interest and, hence, that the inability to find attractive investment opportunities would cause would-be savers to spend.

The difference between these two authors and the school they attack is that they have faith, as frequently stated in the closing pages, that if flexibility "is permitted" economic progress will be adequate for "full employment," while the Keynesians, with an eye on the history of depressions, follow a chain of analysis that leads to the conclusion that recurring depressions, if not stagnation, are inherent in our economy, however flexible prices and costs might be. Faith alone will not remove this mountain.

Exception should perhaps be taken to the frequent likening of the ideas under review to those of Marx. At times this is very labored as when, with a slight apology (p. 170), the "declining propensity to consume" is likened to "increasing poverty." Such reference is meant to disparage the argument under consideration. To liken the views of another to certain doctrines of Marx may be very complimentary, as every scholar knows, but a good rule for polite discourse relating to Marx is suggested by the Virginian's demand: When you call me that, smile.

H. Gordon Hayes

*Ohio State University*

## Money and Banking; Short-Term Credit

*La Moneta e l'Oro.* By LUIGI FEDERICI. (Milan: Casa Editrice Ambrosiana. 1943. Pp. xxiv, 719. Lit. 400.)

*Teoria dei Cambi.* By LUIGI FEDERICI. (Milan: Casa Editrice Ambrosiana. 1945. Pp. 186. Lit. 200.)

These two books review monetary and exchange theories of the ancient and recent past and reaffirm Professor Federici's philosophy based on the classical principles of the gold standard. The historical presentation is obscured by an excessive show of erudition, characterized by repetitious digressions, quotations and footnotes, while the approach to modern doctrines is generic and inconclusive. These books, purported to be for teaching uses, lack general uniformity or balance in style and form; attempts to elaborate advanced theoretical analyses and mathematic formulas are combined, in an inordinate manner, with textbook passages on elementary economics.

*La Moneta e l'Oro* (Money and Gold) is divided into two parts, the first dealing with "money" and the second with "gold." In the first part, Professor Federici defines the basic types of money as "commodity money" (moneta-merce) and "nominal money" (moneta-segno) and from that he proceeds to discuss (and progressively eliminate) the various attempts made by socialist doctrinaires to express money in terms of "labor units" and by economists to interpret the value of money in terms of marginal concepts and quantitative analyses. After presenting Fisher, Pigou, and Keynes as the representatives of an identical school of thought which placed undue weight upon monetary factors and overall averages as compared with economic facts and specific conditions, Professor Federici finds in the "neutral money" of Hayek a "theoretical expression of a practical impossibility" which, however, should be interpreted as a defense of the "good money" doctrine—in the sense of "the gold standard . . . in its automatic working . . . when operating and efficient" (p. 337). The second part of the book is dedicated to an exposition of the working of the gold standard in "closed" and "open" markets, the functions of monetary reserves, the effects of the first World War on the gold standard, the so-called shortage of gold in the 'twenties, the maldistribution of the gold stocks among the various countries in the 'thirties, and the experiences of stabilization funds in the United Kingdom and the United States. Except for polemic attacks on the importance Cassel attributed to the "gold shortage" in the 'twenties, this part is largely historical and political. Professor Federici's conclusions are that exchange controls and funds' operations pursue the impossible aim of maintaining artificial exchange stabilities while trying to expand exports, and their most serious danger lies in the fact that they tend to perpetuate conditions of basic economic maladjustment.

It is Professor Federici's view that "the problem of exchange rates is nothing else but a problem of prices and as such it may be approached from a mathematic point of view through a system of equations, from which equilibrium rates may be derived" (*La Moneta e l'Oro*, p. 374). Professor Federici develops this thesis in the treatise on the *Teoria dei Cambi con*

*particulare riguardo al caso delle monete segno* (Theory of Exchanges with Particular Reference to Nominal Monies). Taking Cassel's purchasing power theory as a basis and following the international trade and exchange theories of Bresciani-Turroni and Ohlin, Professor Federici maintains that "the rates of exchange and the terms of trade are mutually interrelated and are functions of all factors which contribute to determine a position of equilibrium" (p. 27). Such position of equilibrium, he adds, can be achieved only under the gold standard, because under any system of "nominal money" (moneta-segno) "the continuous or frequent changing of monetary conditions will prevent the development, in a systematic manner, of an equilibrium position" (p. 42). The treatise does not bring out any new theory of exchanges but elaborates various cases in which exchange rates of "nominal monies" are affected by transfers of services and capital (loans and unilateral payments) and analyzes the theoretical and practical limitations inherent in the purchasing power parity theory of Cassel.

FRANK M. TAMAGNA

*Washington, D. C.*

## International Trade, Finance and Economic Policy

*The Finances of European Liberation, with Special Reference to Italy.* By FRANK A. SOUTHARD, JR. (New York: The Carnegie Endowment for Internat. Peace, Kings Crown Press. 1946. Pp. ix, 206. $3.00.)

While considerable attention has been paid to the German economic and financial operations in the occupied countries, very little notice has been taken of the important work in these fields carried on in the countries liberated or occupied by the Allies. Professor Southard's book thus represents the first comprehensive book to deal with the financial problems and the modern techniques developed and used by the Allies in the occupied and liberated territories in furtherance of the war.

The growth in our mastery and our understanding of financial institutions and practices which was demonstrated in this war can only adequately be perceived in comparing the calm record in this book of how financial problems in the occupied areas were met and overcome with the bewilderment and confusion on financial matters which were prevalent in earlier wars. Probably the classical example of the latter is the Philippines' occupation when the Army simply could not cope with the financial problems of the occupation and the reactions of the Army officers concerned were summed up as follows: "For perversities, complexities, difficulties, and impossibilities, Manila is one of the most wonderful places on the face of the earth, and it would seem that all the artificial eccentricities of the place and the people are concentrated in the currency." [Quoted in E. W. Kemmerer, *Modern Currency Reform* (New York, 1916), p. 252.]

Professor Southard covers the techniques of handling the currency supply of the armies, public finance, private finance, foreign exchange and foreign trade, the control of military procurement and spending, and the control of inflation. Probably the aspect of the financial work in the liberated

and occupied territories which has received the most attention was the use by the Allied armies of invasion currencies such as the Allied Military lira, the Allied Military schilling, the British Military Authority pound, the Supplemental franc, and the Allied Military mark. Professor Southard thoroughly goes into the justification for the use of this highly effective technique and conclusively establishes its legality from the standpoint of international law and United States law.

The experience in the occupied and liberated countries was particularly valuable in exposing the essential characteristics of institutions and practices as these were exposed by the strain and stress of the passage of war and the imposition of occupation or civil affairs control. The work is, therefore, of interest to a broader group than the specialists in financial techniques and policy.

The banking field is a good example of this. Professor Southard describes how carefully and hesitatingly the Allies opened the banks in Sicily. The major part of the banking assets consisted of Italian government bonds which were not being serviced—naturally enough, since the government whose debt they were was on the other side of the battle lines and waging war against the Allies. Yet because of the need for banking services, it was felt important that the banks be opened. The Allies opened the banks after six weeks of delay and only after providing more than ample cash reserves and imposing severe restrictions on withdrawals. It soon became clear that the depositors of the banks had no concern with the quality of the assets underlying the deposits, but were concerned solely with the apparent ability of the bank to meet demands. The result was that the Allies grew bolder and more confident and opened the banks in Rome within a week after the city was liberated and opened the banks in Milan inside of a day.

A subject which had never before been adequately covered by an economist is that of military finance, that is, the financial operations of the armies themselves in the field. Professor Southard thoroughly explores and develops this subject. In particular, he brings out the difference between real foreign exchange transactions of the military, *i.e.*, those which affect the international balance of payments of the civil community in which the army is located, and "apparent" foreign exchange transactions, *i.e.*, those transactions within the military community, which, although taking place in the civil community's currency, do not affect the balance of payments of the civil community.

During the period of which Professor Southard writes, the Army economy used the same currency as the currency of the occupied or liberated areas. The result was a blurring of the dividing line between the two foreign exchange communities, which resulted in a number of difficult problems in the operations of the Army. For example, soldiers moving from one country into another were forced to exchange their whole currency holdings each time, although the main use of the currency was to make purchases in army installations in each case. Estimates of the actual amounts spent by soldiers in the local community had to be derived by the process of calculation described by Professor Southard. Since Professor Southard's book was writ-

ten, the Army now uses its own internal means of payment—"Canteen Money" or "Military Payment Certificates," which are used only within the Army economy and have no value outside of the Army economy. As a result, the fact that the Army is a foreign exchange unit of its own has been sharply brought out and Professor Southard's analysis of the difference between "apparent" and "real" foreign exchange transactions of soldiers has become sharply outlined.

This study is particularly valuable because of its being mainly based on experience rather than on research into written records, which are always incomplete and at times proved by the course of events to be inaccurate.

The criticisms of the book for omissions and inaccuracies fall precisely in those few parts of the book which are based on written records which were inadequate. This is true, for example, of the figures given on how the Italian government financed its deficit in 1943. The source of these figures is a preliminary report written by the reviewer which had to be prepared on the basis of incomplete data. Later information resulted in a complete revision of the figures, and the data quoted in the book are, therefore, inaccurate. A few of the comments on policy decisions which were made by the Allied governments at home are inadequate for similar reasons.

In one respect, the book was probably written too soon after Professor Southard's return to the United States from working on financial problems in the Mediterranean theater. It is probably because he was so accustomed to it that he does not give an adequate picture of the tremendous operating difficulties and confusion under which the work had to be done. He likewise does not bring out that one major problem—for economists—was that the Allied officers doing the work could not restrict themselves to giving advice, they had often to carry out the program they advised. Professor Southard, himself, for example, (although he does not mention it in his book) not only had to advise on what the policy should be on opening banks in Sicily, he had to don a helmet, pick up a carbine, and go out with a truck convoy to deliver the necessary currency.

In conclusion, the book must be regarded as a unique record of a highly interesting period and as being a notable contribution to the field of financial technical writing.

ANDREW M. KAMARCK

*Washington, D. C.*

*International Economic Cooperation.* By J. TINBERGEN. (Amsterdam: Elsevier. 1945. Pp. 208. $4.00.)

This book, a volume in the Elsevier Economic Library, is written by a Netherlander and published in the Netherlands as a translation into English. It is not a long book but it takes considerable time to read it, primarily because of numerous obscurities of expression. If it had been edited especially for the American reader, or if it had been translated into better English, it probably would find a fairly receptive market. As it is, the translation is so poor that many would-be readers, I suspect, will put it to one side to be read "later on."

The author was engaged in business cycle research for the League of Nations from 1936 to 1938. From that experience, it is evident, he has become an enthusiast for international economic "coöperation" and in this book he proceeds to discuss the problem without regard to what he calls the "non-economic" factors. The result is a book with the content of which it would be difficult to disagree, on the basis of pure reason. Indeed, what remains of international economics but truisms if political considerations are deliberately omitted from the picture?

Part One is confined to the "essence" of international economic relations, and includes such subjects as the heterogeneity of the world economy; current commercial transactions; transfers of territory, population, and capital; and equilibrium in the balance of international payments.

There is little, if anything, that is new in these chapters. They constitute a brief—and sometimes ponderous—résumé of neo-classical international trade theory. In several places, particularly in the Summary, statements appear that are not altogether intelligible, such as: "The population of the United States has entirely arisen from migration" (p. 11); the "continuation of the tendency to free trade which is found . . . in the United States" (p. 27); and "in the field of international trade a most important step has been the American decision to lower tariffs by 50 per cent" (p. 180).

Part Two is devoted to the "Regulation of International Economic Relations" and is more positive in tone than Part One. The discussion centers largely on the need for a "powerful international centre" which presumably would be the principal instrument in avoiding the chaotic situation that prevailed after 1918.

But the complete solution of the problem of organizing the international community, he insists, is not the task of the economist or the "politician." Their places are modest beside those occupied by the expert in government, the psychologist and the pedagogue, the sociologist and many technical experts. Here, whether because of difficulties in form or in substance, the thesis becomes somewhat difficult to follow.

The author would set up an international economic center with "*authority* . . . to take all the measures of economic policy which are necessary for the welfare of the world's social system." He would, in substance, assure economic freedom ***within*** nations by providing for greater regulation internationally, particularly with regard to commodity markets. His consistent integrity in following the logic of his argument is apparent at the beginning of Chapter XI where he says " . . . a curtailment of national sovereignty is necessary with regard to economic policy, if a more stable and prosperous social system is to be realized in the world than we have witnessed since 1914."

To those who are familiar with the tariff history of the United States—either of a century ago or current—or with the behavior of the representatives of the larger nations at international conferences and organizations, such a thesis is tantamount to recommending that "education" is the answer to the world's ills. Of course it is true, but how practical a solution is it to the problems that actually confront us? The world is still far from willing

to be convinced by mathematical logic, even if it is wrapped in a package labeled "pure economics."

Those who have had practical political experience in the field of international economic relations have no alternative but to be skeptical that a "powerful" *inter*national center can have power beyond that of making "pure"—that is to say, nonpolitical—studies. The kind of center that Dr. Tinbergen really has in mind, I imagine, partakes more of the nature of world government than of international organization. Little is gained by adding to the general confusion between these two quite different phenomena.

The book concludes with a chapter on the economic position of the Netherlands and with mathematical appendices on the pure theory of international trade. The author's country has much to gain from freer trade. But, assuming that her Far Eastern territories are held, she could, after an initial period of reconstruction, he maintains, get along tolerably well on a relatively self-contained basis.

HOWARD S. PIQUET

*Washington, D. C.*

*Bilateral Exchange Clearing Policy.* By P. NYBOE ANDERSEN. (London: Oxford Univ. Press, for the Institute of Economics and History, Copenhagen. 1946. Pp. 242.)

The author explains in his preface that he commenced this study of bilateral exchange clearing policy in the midst of World War II when clearing agreements were at their height; and now publishes his manuscript "at a moment when these agreements are being widely replaced by more flexible methods of trade and transfer." But he considers that bilateral clearing has played a sufficiently important role to justify a theoretical analysis. In this view he is fully supported by the quick and widespread reappearance of bilateral trade and payments arrangements during the past two years. We have by no means seen the end of bilateralism and we need to know a great deal more about it.

The first three chapters comprise the descriptive part of the book. They provide a brief, but satisfactory, account of clearing agreements during the years following 1931, and of the main lines of dèvelopment of clearing policy. The remaining seven chapters, the theoretical part, are devoted principally to an examination of the clearing mechanism, "waiting" and "financing" principles, clearing parities, and financial (as contrasted with commercial) transfers. In the Introduction, Dr. Andersen says he intends to make no comparisons with other payment systems and no valuation of the clearing system. The latter intention is held to; but throughout the theoretical portion of the book there is frequent comparison of the clearing and "banking" systems—the latter term being applied to a multilateral, substantially unrestricted payments system.

The description of the clearing mechanism (Chapt. IV) follows accepted lines. But here, as in later chapters, the contrasting "banking mechanism of foreign payments" is cited with no indication that when exchange con-

trols are introduced, and particularly when they are aimed at some degree of bilateral balancing, the contrast loses its sharpness. The discussion is useful, although an unnecessary amount of space is devoted to demonstrating that exchange clearing is a type of state interventionism which is limited by the reciprocal nature of trade and exchange.

The heart of the theoretical treatment is to be found in Chapter V, where Dr. Andersen inquires whether there are any inherent regulatory forces in exchange clearing. He first examines the "financing principle," under which exporters do not have to rely solely on importers' in-payments—*i.e.*, the central bank finances any current deficit in the clearing office. Assuming no central-bank counter-action, he argues that liquidity will be increased in the exporting country and hence the level of interest rates will decline; while in the importing country the import surplus will reduce the circulation of money, because it is absorbed by the clearing office. The inflationary and deflationary results, respectively, would operate in an equilibrating direction. He concludes, however, that these equilibrating forces are likely to be weak and in any case may act in a global rather than in the desired bilateral direction (p. 131). The capacity of the central bank to support these weak equilibrating forces is limited by the difficulty of discriminating bilaterally in credit policy.

The "waiting principle" operates when exporters can be paid only from funds previously paid into the clearing office by importers. Here the analysis is centered mainly on the consequences of anticipated delays (pp. 141–49) —an added cost to exporters, hence a tendency toward rising export prices and decreased exports, depending on the elasticity of overseas demand. There is nothing unique in this line of reasoning; it has been applied to many international-trade situations in which export prices are under upward pressure from import duties or exchange delays *not* due to clearings. But its systematic application to clearing delays is very useful. The end result, of course, is a decline in export values, with clearing-balance equilibrium as the goal (p. 147). One may agree with the conclusion (p. 146) that the results will be stabilizing only if overseas demand is elastic. But the assertion that the probability of this result is "not very high" cannot be accepted *a priori;* the author himself admits that a "quantitative measure" cannot be given. The reviewer also agrees with the final conclusion on this phase of the subject (p. 149), that the waiting principle "corresponds more closely than the financing principle to the clearing concept," both because its effects are more dependable and persistent and because they operate bilaterally rather than globally. But the statement (p. 150) that the waiting principle operates only in the creditor country presumably means only that since there are no delays imposed on exporters in the debtor country, the waiting principle does not *directly* apply. The debtor country of course feels the effects of import difficulties and increases in import prices which are due to clearing delays in the creditor country.

The problem of determining a clearing parity is treated in two exceedingly abstract and condensed chapters (VI and VII). Assuming a change in costs in one country and in the clearing rate, the consequences are traced

through fifteen different combinations of trade restrictions in the two countries. To most of this analysis the reviewer takes no exception. But the conclusion (p. 172) that the determination of a clearing parity is made the more difficult because changes in costs (for example) and clearing rate are seldom simultaneous seems oblivious of the fact that *all* efforts to determine equilibrium exchange rates (whether or not under clearing conditions) are inescapably complicated because factors of disequilibrium are intractable both as to their measurement and as to their timing. Here, as in other parts of the book, the author's reluctance to evaluate the system he is studying leaves it to the reader to observe that the clearing system is no escape from most of the problems of exchange stabilization which confront non-clearing systems.

The reviewer found this a provocative and helpful book, to be added to the still-small number of careful studies of exchange control in all of its aspects. It represents a skillful application of the methods of both partial and general equilibrium analysis to the device of bilateral clearing. The reader will not find any conspicuous gaps in either scope or method. But if he is looking for a study of European experience with clearing agreements, he will not find it in these pages. It may be hoped that Dr. Andersen will next apply his abstract analysis to an examination of some of the more important prewar clearing arrangements. Perhaps inability to determine elasticity of demand, to separate political from economic purposes, to isolate changes in costs, and so on, would stand in the way of fruitful results. If so, we would at least know that, as a practical matter, the exchange-clearing system cannot be more than a grossly inexact interventionist device.

FRANK A. SOUTHARD, JR.

*Cornell University*

*Memoria de la Primera Reunión de Técnicos sobre Problemas de Banca Central del Continente Americano.* (Mexico City: Bank of Mexico. 1946. Pp. vi, 534.)

This volume contains the proceedings of the First Conference of Inter-American Central Banking Technicians, held in Mexico City during the second half of August, 1946, under the auspices of the Bank of Mexico. Participants included central bank officials from all of the American republics, among which were such internationally known economists as Raúl Prebisch, the distinguished ex-general manager of the Argentine Central Bank, Herman Max of the Central Bank of Chile, Octavio Bulhões of the Finance Ministry of Brazil, Victor Urquidi of the Bank of Mexico, Henry Wallich of the Federal Reserve Bank of New York, Robert Triffin of the International Monetary Fund, and Woodlief Thomas of the Board of Governors of the Federal Reserve System.

Reflecting the division of work at the conference, the volume is divided into three sections. These deal successively with "Money and Credit Regulation," "Problems of Foreign Exchange and Balance of Payments," and "Coöperation between Central Bank Economic Research Departments."

The first section opens with some pertinent observations by Dr. Prebisch on the topic of "Center and Peripheral Countries," in which the point is made, with great effectiveness, that we live in a world in which the United States is the "cyclical center," while the individual economies of Latin America are on the periphery. The gist of his argument is that the United States is the source of those impulses of expansion and contraction which vitally affect the economic life of peripheral countries. This idea is not, of course, a new one, though it is deserving of endless repetition. After discussing the various aspects of the topic, Prebisch concludes that no single-track policy can cope with the problems of the center and peripheral countries.

As to content, the first section of the volume contains the following three papers on money and credit: a part of the important Annual Report of the Board of Governors of the Federal Reserve System for 1945, a report by the Central Bank of Venezuela on inflation control, and a paper on money and credit regulation in El Salvador. Brief reports follow on rediscounting, bank investments, and flexible reserve ratios. On the subject of selective credit control, there are two papers: one by the Board of Governors dealing with United States experience, and another by Dr. Bulhoẽs on qualitative credit control. At the roundtable on general money and banking problems, papers were presented by Woodlief Thomas on United States postwar monetary policy, by Sr. Silveira of Uruguay on Uruguayan inflation, by Dr. Fretes of Argentina on recent monetary and banking reforms in his country, and by Dr. Wallich on interest rates (subsequently published as the leading article in the December, 1946, issue of this *Review*). The section closes with a paper on the operations of the Mexico City Clearing House. Outstanding among these papers and observations are those by Prebisch, Bulhoẽs, Thomas, and Wallich.

The second section, dealing with "Problems of Foreign Exchange and Balance of Payments," is perhaps the most significant part of the volume. Robert Triffin steals the show at this juncture. Largely because of his three papers, this section presents thoughts on gold, balance of payments and international disequilibrium which have yet to appear in print elsewhere. Triffin's three papers deal with the historical functioning of the international monetary standard, monetary policy and international equilibrium, and eight points bearing upon the definition of fundamental disequilibrium. In addition, there is an interesting paper by Urquidi entitled "Analysis and Characterization of the Different Types of International Disequilibrium"; another on exchange control in Uruguay, and still another on problems of balance of payments and exchange as seen by the authorities in El Salvador.

Dr. Triffin brings to his problem a keen mind that is remarkably free of professional fetishes. To illustrate, he opens his discussion of the gold standard problem by citing the obvious disadvantages of interdependence: the contagiousness of political conflict and national economic depression. By this stroke he explains the paradox of increasing political nationalism in a world growing ever more interdependent, and thus sets the stage for a fresh approach to the subject of monetary policy and international equilibrium.

Foremost among the objectives to be sought is the reconciliation of domestic monetary policies with the requirements of international equilibrium. The isolationist monetary policies of the prewar decade constitute a danger whose character is well known. Bretton Woods attempts to protect the international economy only from the excesses of national monetary policy for central banks and governments are still at liberty to adopt independent national monetary policies, subject only to the limitation that Fund resources are not to be used "contrary to the purposes of the Fund." Thus the success of the Fund will depend to a high degree on the appropriateness of each member's monetary policy and, residually, the contribution which each makes towards a lessening of the conflict between the attainment of domestic objectives and the maintenance of international equilibrium. Concretely, a fundamental disequilibrium not corrected by domestic adjustments will drain the Fund's resources or require either depreciation or exchange control. Since the Fund will not permit the excessive use of its resources, international adjustment will involve a choice between depreciation and exchange control. In making the choice, two elements must be clearly understood: first, that a distinction is needed between a fundamental disequilibrium in the international position of *one* country and world-wide disturbances in balances of payments associated with cyclical fluctuations; and second, that the usual explanation of the adjustment to a disturbance in the balance of payments involves the unrealistic assumption of a similar degree of quasi-perfect competition among the world's trading nations.

In the case of cyclical disequilibrium, orthodox gold-standard policy, instead of correcting the deficit in the balance of payments by way of price adjustments, simply diffuses cyclical disturbances originating in the leading industrial nations. A deficit in the balance of payments is corrected ultimately, but by way of a contraction in general economic activity and in incomes. Moreover, there is a legacy of a defective international price structure. It is especially important that the Fund distinguish clearly between cyclical and fundamental disequilibrium in the balance of payments. For, in most cases, the only satisfactory corrective of cyclical disequilibrium (other than when resulting from basically maladjusted prices) is not that of internal deflation according to the "rules of the game," but the restoration of economic activity and purchasing power in the centers of cyclical disturbance. The resources of the Fund will prove very useful in this connection; yet there is a danger that the Fund's resources will be dissipated in financing a country's fundamental disequilibrium rather than one of the cyclical type.

Triffin would take several steps to avoid such abuse of the Fund. First, amend the so-called "repurchase provisions" to permit the maximum use of international reserves held by the deficit country. Second, borrow from sources other than the Fund, especially for rehabilitation and reconstruction. Third, authorize the use of exchange control with respect to current transactions. This last suggestion is, of course, highly controversial, and no one appreciates this more than Triffin, who has faced the issues involved in the various Latin American central bank laws which he has authored.

There are cases in which exchange control, under clearly formulated rules governing its use, is preferable to excessive borrowing, domestic deflation, or exchange depreciation. The issues involved are too complex for discussion here, although it may be pointed out that an auction system, patterned somewhat after the Argentine model, would be used to allocate exchange on an internationally nondiscriminatory basis.

It would also take us too far afield to discuss Triffin's "eight points" regarding fundamental disequilibrium. Suffice it to say that they are well taken, and should be required reading for all who wish to be informed on this subject.

Sr. Urquidi's paper on the different types of international disequilibrium is interesting in many respects. He classifies cases of disequilibrium by types and throws light on a number of features peculiar to different types. His conclusion is that the concept of "fundamental disequilibrium" is imprecise, and should be discarded. Actually, however, many of his classifications are but subheads under fundamental disequilibrium. In the reviewer's opinion, he fails to see that the concept, regarded as a bench mark, gains in generality what it loses in precision with respect to particular situations.

The third section of the volume deals with cooperation between central banks on the research level. Various current research functions are described, as are different types of statistical series now being compiled. There was a general appreciation of the need for greater cooperation in this area, especially in connection with statistical studies on balances of payments and national income. A good deal of significant improvement and standardization may be expected to result from future collaboration. Before adjourning, the meeting fulfilled an important mission when it approved the formation of a Permanent Committee of Inter-American Central Banking Technicians.

The Bank of Mexico, as host for the meeting and publisher of this valuable document of proceedings, is to be congratulated for having made possible a pioneering venture. The success of the first meeting augurs well for future action in this field.

VIRGIL SALERA

*University of Texas*

*Soviet Foreign Trade.* By ALEXANDER M. BAYKOV. (Princeton: Princeton Univ. Press. 1946. Pp. x, 126. $2.00.)

*Russian-American Trade, a Study of the Soviet Foreign Trade Monopoly.* By MIKHAIL V. CONDOIDE. (Columbus: Ohio State Bur. of Bus. Research. 1946. Pp. xiii, 160.)

Although almost two years have passed since the termination of the war, there are very few indications as yet as to the volume and structure of Russia's participation in postwar international economic relations.

Impressed by the extent of the war damages suffered by the U.S.S.R., many students of foreign trade expected the first years of peace to witness

a vast expansion of American exports to Russia.[1] As is not infrequently done by even the most reputable economists, "need" and "effective demand" were treated as if they were synonyms, and the question of the means by which Russia would be able to pay for those imports was touched upon rather lightly.

Russia certainly could use almost anything she could secure from abroad, and the willingness and ability of other countries (primarily the United States) to supply might be the only limit to what Russia would be interested in importing. The question of payment for those imports is, however, a complicated matter. In the current early phase of Russian reconstruction only insignificant quantities of very few commodities are likely to be available for export. Russia's very modest commitment of last October, for instance, to deliver to Great Britain 23,000 tons of lumber before winter froze the Soviet ports was fulfilled only as to 50 per cent, and there is some doubt whether the remainder will be forthcoming even when the Russian harbors thaw.[2] While the goods which Russia would get in exchange for her exports could be even more important to her economy than the ones which she would have to ship abroad, the domestic shortages, transportation (and especially harbor) difficulties, and various bottlenecks seem at the moment to be so stringent as to preclude many a rational economic transaction.

The only commodity which the U.S.S.R. can send abroad without encroaching upon vital domestic needs is gold. The total amount of Russian gold holdings and the volume of her current gold production are matters of guesswork. About 2 billion dollars for the former, and about 200 million annually for the latter, are the usually cited estimates.[3] It is rather puzzling that at least a part of these vast amounts has not already been used for the purchase of direly needed foreign supplies. It is possible that the price developments in the United States as well as the present difficulties in placing orders with American suppliers may have induced the Russians to postpone their purchases until the American sellers' market ends, and prices, specifications, and delivery terms become more favorable. Of equal, if not larger, importance may be the notion of preserving the gold until a major loan can be negotiated, and of then employing the gold stocks as well as the current gold output for smooth and painless servicing of the debt. A possible future necessity of securing a favorable trade balance at any price in order to meet current obligations in foreign exchange—an exigency well remembered from the days of the Great Depression—could be thus avoided.

Be that as it may, it would appear very unlikely that large Russian purchases abroad, desirable as they are from the viewpoint of Russian reconstruction, could be arranged without foreign financial assistance. Whether such assistance will be given is primarily a political question. If it can be optimistically assumed that the present tension between the Anglo-

[1] *Cf., e.g.*, August Maffry and Hal B. Lary, *Foreign Trade after the War* (Washington, D. C., 1943).

[2] Dispatch by Frederick Kuh, *Chicago Sun*, January 5, 1947.

[3] Alexander Gerschenkron, *Economic Relations with the USSR* (New York, 1945), p. 36.

Saxon countries and the U.S.S.R. is only a passing phase, and that once the bargaining over the spoils of the war is over, more normal and more stable relations between Russia and the "capitalist" world will develop, the idea of granting to Russia a sizable reconstruction loan may become more attractive than it is today. Should, however, the attitude continue to prevail that found its most articulate expression in a statement of a congressional committee that the development of Russia's industrial economy "can only be deleterious to the interests of a secure and peaceful world under present Russian policies," the prospects of American-Russian economic relations exceeding the narrow confines of some "cash and carry" transactions would seem to be rather dim. Russia, once more impressed by the dangers resulting from "capitalist encirclement," would presumably continue to place emphasis on strategically inspired self-sufficiency, would attempt to integrate her economy with those of her immediate neighbors, and would rely on reparations from enemy countries and minor imports from the rest of the world for such supplementary resources as she could conveniently obtain.

* * *

These questions basic to any discussion of Russian foreign trade and of Russian-American economic relations are hardly touched upon in the books under review. Mr. Baykov's study supplies a considerable amount of statistical and documentary material on the prewar history of Russia's foreign trade; it entirely fails, however, to integrate it with the general objectives of Soviet economic planning. The problems resulting from Russia's strategically motivated efforts to attain rapidly as high a degree of self-sufficiency as possible are not even mentioned. The concomitant question of the extent to which Russia would be willing to depart from the principle of "making everything at home" and accept at least some international division of labor, relying for some goods on imports and specializing in others for export, receives no attention. Nor is there any discussion of the economic significance of the broadening of Russia's orbit, or of the outlook for Russian economic cooperation with Poland, Yugoslavia, Rumania, Bulgaria, Hungary, etc. The actual and potential importance of German reparations, and the actual and potential changes in Russia's economic position resulting from Japan's disappearance as a major power, are only two more examples of vital aspects of the subject that "obtrude by absence." Last but not least, Russia's attitude towards the Bretton Woods institutions, the International Trade Organization, etc., do not figure in Mr. Baykov's treatment. The information offered thus loses most of its interest, becomes "dead history" and supplies no tools for the analysis of the factors determining Russia's present and prospective role in the world economy.

But if Mr. Baykov's study provides at least an assiduously assembled collection of "facts and figures" concerning Russia's foreign trade in the past, Mr. Condoide's essay cannot be even regarded as a reliable source of such data. In some instances the information that he supplies is erroneous. In discussing the earlier Russian planning procedures in which most quantities of output were projected in "maximum and minimum variants," he is

mistaken in his belief that these variants "mean simply that in order to achieve realization of the production of the planned items each important economic index must fall within the maximum and minimum economic values planned" (p. 14). Actually these variants were production goals formulated *on different assumptions*, and it was by no means sufficient that the actual performance should fall within the range between the maximum and minimum aims. Since these ranges were quite considerable, major frictions would have resulted from the employment of such lenient standards of performance. The so-called annual "control figures" supplementing and elaborating the five-year plans accepted *one* variant and made it the operating target.

Of very dubious value, also, is the information that in 1933 the share of the government budget allocated to industrialization amounted to 60.8 per cent, while in 1938 it was 41.7 per cent (p. 20). Being left in the dark as to the role of this budget in the economy, one is hardly in a position to appreciate these percentages. It is incorrect to call the monetary measures adopted on March 14, 1936 a "second attempt at stabilization" of the ruble (p. 49). It was, in fact, a devaluation of the ruble from 0.7719 gram of fine gold to 0.1777 gram of fine gold. This operation, relating exclusively to the bookkeeping of Russia's foreign trade monopoly, had nothing to do with inflationary developments on the domestic market, as Mr. Condoide surmises. A rather interesting and novel device of securing foreign exchange by "exporting to one's own country" was adopted by the Russians in the 'thirties (in the years of their severest foreign exchange shortages) by the introduction of the so-called "Torgsin" (Trade with Foreigners). Originally designed to supply foreign residents in Russia with all necessities against payment in foreign exchange, the organization eventually began catering also to Russian citizens who were able to pay with gold or foreign remittances. The goods thus sold were of high export quality. Instead of going to the trouble —at that time considerable—of marketing them on adverse world markets, the Russians obtained the same result by disposing of them at home. Mr. Condoide loses the meaning of the "invention" by assuming that these Torgsin wares were *imported* articles (p. 52). The transaction would have been very unattractive to the Russian exchequer if it had had to pay in foreign exchange for what it sold for foreign exchange. In fact Torgsin was able to syphon considerable sums of gold and foreign currency out of the Russian population—at that time a not unimportant addition to the depleted foreign funds of the government.

In spite of these and many other inaccuracies and oversights, Mr. Condoide's booklet contains much that is useful. While passing by all the more intricate questions in connection with his topic, he appreciates at least the role of Russia's foreign trade monopoly in her general system of planning. The appended texts of various economic treaties and agreements between the United States and the U.S.S.R. will be welcome to all students of the subject, the more so since they are usually rather difficult to unearth.

Paul A. Baran

*New York, N.Y.*

## Public Control of Business; Public Administration; National Defense and War

*Economic Progress and Social Security.* By A. G. B. FISHER. (London: Macmillan. 1945. Pp. xi, 362. $5.00.)

*International Implications of Full Employment in Great Britain.* By A. G. B. FISHER (London and New York: Royal Institute of International Affairs. 1946. Pp. 202. $3.50.)

*Plan for Reconstruction: A Project for Victory in War and Peace.* By W. H. HUTT. (New York: Oxford Univ. Press. 1945. Pp. 336. $4.50.)

In one central respect, Professor Fisher and Professor Hutt are engaged upon the same crusade. They are both concerned with removing what Professor Hutt calls "the incubus of restrictionism." As wartime products, both books contain acid comment on the manner in which the restrictive mentality damaged the war effort, but both subordinate this feature to the central purpose of developing a long-range program.

In *Economic Progress and Social Security*, Professor Fisher continues and elaborates the argument of his earlier volume, *The Clash of Progress and Security*, that "The prompt and continuous diversion of labour and capital into relatively new types of production is an essential condition for maintaining a satisfactory rate of material progress as well as for avoiding chronic relapse into depression. . . . " He develops a program for overcoming resistances to structural change and supplements it with international measures.

To Professor Fisher, social security is a conception which may be viewed in three lights: (1) as a system of benefits for the distressed and displaced, (2) as a set of devices for maintaining people secure in their existing modes of livelihood and (3) as a provision for collective security through full and appropriate use of resources. The last of these over-rides all other objectives of economic policy, the second is anathema, and the first presents no serious problem if the last be achieved.

It is hardly necessary to outline Professor Fisher's destructive argument against policies designed to fortify sectional interests since it follows lines which have been given very active expression in the United States in recent years, both in criticism of the National Recovery Administration and in connection with the activities of the Temporary National Economic Committee. Nor need one state his argument against collectivist planning which follows the familiar lines of liberal criticism. On the side of a constructive program, he assumes the necessity for extensive government "intervention" to exercise institutional rigidities and to encourage "structural changes in conformity with the requirements of a growing and expanding economy." The constructive program includes (1) the withdrawal of public support from all restrictive schemes, (2) a firm antimonopoly program where applicable, (3) extension of the principle of public utility regulation where applicable, (4) public competition at selected points, (5) state enterprise in some other industries, especially those tertiary industries providing cul-

tural services, (6) tax reform to encourage small and venturesome enterprises, (7) educational reform to develop the diverse abilities of the "human capital," (8) a comprehensive system of "social security" benefits in the limited sense, (9) measures to increase labor mobility, (10) increased standardization of products, and (11) some public control over the processes of scientific discovery, together with other minor features.

Professor Fisher's later chapters on international economic adjustment fit in consistently with the logic of his domestic program, in that they restate the argument for international specialization, deplore policies supporting restrictive practices and support postwar measures for international financial and trade cooperation. By reason no doubt of his special interest in this field, these chapters have much more concreteness of subject matter than have the earlier parts of the book.

The economic analysis involved in arguing the merits of a flexible economic system, together with the positive role of government in relation thereto, is of very great importance, since it brings into focus both the weaknesses inherent in much current practice and the potential dangers in proposed lines of reform. Nevertheless, by reason of the ingrained convictions and antipathies of the author, he gives less than is due to the potentialities of various kinds and degrees of planning, under political assumptions certainly no less plausible than those which support his argument. There is an air of finality in a sphere where the exploratory approach is more suited to the present state of affairs.

Moreover, Professor Fisher's intellectual antipathies lead him at times into extremely shaky positions. A conspicuous example is the treatment of unemployment in Chapter 6. No economist ought to under-rate the connection between structural rigidities and cyclical unemployment, but it is a throwing away of useful tools to write off in a phrase the type of analysis to which the influence of Keynes has given such great currency. Exposition of the Keynesian position has, it is true, commonly neglected the structural facts which might limit the efficacy of proposed lines of policy. And Professor Fisher is no doubt justified in anticipating a political effort to tie Keynesian policies to types of planning which are repugnant to him. There is, however, no necessary economic connection, only on political possibility.

Professor Hutt, in ***Plan for Reconstruction***, largely takes as given the defects of economic structure and policy which Professor Fisher so laboriously and repetitiously demonstrates. His book is devoted to detailed remedies in the form, first, of proposed legislation to secure full use of resources and equitable distribution of income and, second, of running-text explaining and supporting his proposals. The central proposal is in the form of a "Resources Utilization Protection Bill." In one of its aspects, this is an extremely stringent antitrust law, patterned after the American laws but going far beyond them, especially in the definition of discriminatory and restrictive practices. In addition to its duty of enforcing elaborately defined prohibitions against corporate concentration and all forms of restraint of trade, the proposed Commission is empowered: (1) to force the fuller productive use of privately owned enterprises, (2) to revise the prices of

products, (3) to take over going concerns for public operation, (4) to establish and operate new public enterprises in competition with private enterprises, (5) to classify industries as public utilities and regulate them accordingly, (6) to enforce standardization of products and synchronization of related operations, (7) to control the licensing of patents, (8) to regulate the hours of labor, (9) to modify or rescind minimum wage rates in particular industries and (10) to regulate the activities of labor, professional and employers associations. For price control and the pricing policy of public corporations, marginal cost is made the limiting standard.

Professor Hutt will have no truck with half-way measures. He utilizes practically every device that has been proposed for eliminating monopolistic practices and forcing the fuller use of resources and he invents some new ones. He proposes to attack the restrictionist mentality and its consequences with the biggest club that he can find. Like Professor Fisher, he regards rehabilitation of the competitive and adaptive features of the economy as the overwhelmingly important objective, and is accordingly impatient with monetary or other proposals for full employment when dissociated from proposals for structural improvement.

Generally speaking, Professor Hutt, who is a conscientious equalitarian in principle, thinks that once his productive reforms were in operation, distributive justice could be achieved with only minor emendations of the distributive results of the system. He is, however, much concerned with transitional problems and especially with the resistance to adopting his reforms on account of the "established expectations" of persons in incomes derived from the present productive structure. He therefore proposes that a proportion of all labor incomes should be paid into a Labor Security Pool and Reserve, and that payments be made from the Pool both to support a national minimum wage and to offset gaps between actual earnings and "established expectations." While the importance of this system of enforced pooling of income is regarded as primarily transitional, it might if necessary be retained as a permanent instrument of distributive justice. The administrative implications of such a system are rather appalling but, apart from these, Professor Hutt finds it necessary to justify at length his view that "the 'distributive scheme' can be made completely independent of the 'productive scheme' " (p. 146), and to defend his proposal from the charge of universalizing the defects of the Speenhamland policy.

Strictly for transitional purposes it is also proposed to establish a Capital Security Pool by a levy on property incomes from which compensation would be paid for loss of property income directly traceable to the enforcement of the Resources Utilization Protection act.

Both the Pools are inspired primarily by motives of political maneuvre, to overcome resistances to the passage of the Utilization act which is the heart of the plan.

Professor Hutt's provocative proposals suggest to the mind the solemn thought, that, if it is in fact necessary for the state to intervene in so detailed a fashion into all the processes of production and distribution in order to achieve passably acceptable performance by the private enterprise system,

the grounds of choice between the latter and outright collectivist organization of large areas of activity are greatly narrowed.

In arguments like those of Professor Hutt and Professor Fisher, it is difficult to isolate the economic and the political elements, respectively. In Great Britain, far more than in the United States, there appears to be a readiness to combine measures of sectional interest with those of collectivist planning on terms by no means obviously well designed to advance the internal and external economic position. Against these tendencies writers in the liberal tradition cry havoc. On a calm view of historic processes, one is inclined to think that they prove too much. That is to say, they allow only one solution consistent with economic progress and security. This surely is too narrow a view. In a world in which it will necessarily be the destiny of many countries to organize their economic life on a more planned basis than in the past, solutions of another sort to the same happy end are not out of question. The warnings of books like those under review are by no means irrelevant to such solutions, since the restrictionist solution is never a good one. But, because of inability to enforce a solution representing an extension of what in the United States used to be known as "the new freedom," one does not need to jump in despair into the Thames, the Seine or the Tiber.

In his other small book under review, *International Implications of Full Employment in Great Britain*, Professor Fisher reiterates "the underlying theme of the importance of the highest possible degree of flexibility in our economic structure" (p. 190). Retaining his somewhat skeptical view concerning domestic policies of maintaining effective demand, he judges that active steps to promote the overall efficiency of British industry are the key to its problems in both the domestic and international spheres. Without disputing the importance of the latter, members of the discussion group associated with Professor Fisher in the preparation of this volume enter a dissenting opinion on a point of emphasis, as follows: " . . . the analysis of our system made in recent years by economic thinkers, notably by Lord Keynes, points to remedies for unemployment which would avoid the pitfalls indicated by Professor Fisher, and on which we may reasonably build high hopes . . . Professor Fisher has failed to appreciate the potential benefits, both national and international, to be gained from policies devoted to maintaining effective demand. . . . The second and main type of employment policy, that directed towards maintaining purchasing power, tends to assist in adaptation to external changes by promoting internal mobility. . . . Professor Fisher argues that in our enthusiasm for new ideas we should not neglect the truth embodied in the old. That is so, and the danger is a real one. It is also important that we should understand precisely what the new ideas are." (Disconnected quotations from pages 195, 196, 197, 198.) That seems to me to be a just comment upon Professor Fisher's argument in both of the volumes under review.

While, as noted above, the later and smaller volume takes a somewhat skeptical view of the currently popular approach to "full employment" policies, it contains analysis and commentary relating to Anglo-American

economic relations which carry great weight. Basically, Professor Fisher approves the type of policy now being promoted by the United States, not on the grudging grounds that England has no other recourse, but on grounds of its substantial merits. He recognizes the dangers inherent for England in the possibility of extreme fluctuations in the United States, but, like all of us, takes what hope he can from the declared policy of the Employment Act of 1946. He finds no greater prospect of security and less of progress in any other than an "open" multilateral system of trade relations.

On this point he draws gentle reproof from some of his associates who say: "To exclude all forms of reciprocal arrangements between smaller countries which would enable them to reap some of the benefits of large-scale production enjoyed by industries and inhabitants of the large continental political units, constitutes a serious disadvantage for the smaller countries, against which they may have no guarantee of any offsetting advantages from the operation of the open international order as understood and advocated by the United States and Professor Fisher" (p. 200). This dissenting view, in numerous variants, is probably the prevailing view in Great Britain and it is certainly a matter of great importance that persons in the United States should understand why it is so widely held, even by persons intellectually inclined to the American policy. It is, however, equally a matter of importance that the British should be confronted with a statement like Professor Fisher's to offset a prevalent and erroneous sense that they are being victimized by a policy having no greater merit than the mere willfulness of the United States.

One's final thoughts upon books like those reviewed above are mixed. In breadth of thought they are most stimulating. In marshalling the pitfalls of policy they are superbly relevant. In the absoluteness of the alternatives which they regard as acceptable they appear decidedly too narrow. Possibly by the elaborateness of the constructive programs which they present they will weaken their influence in a hostile political environment, where persons who find the programs inacceptable may be disposed wrongly to belittle the force of the argument against restrictionist policies and practices. Books like these should have a clearer focus upon the audience for which they are intended and be written in a manner appropriate to that audience. As written, the present volumes will serve to fortify the faithful but are ill designed as essays in persuasion.

PAUL T. HOMAN

*Cornell University*

## Transportation; Communication; Public Utilities

*International Air Transport.* By BRIG. GEN. SIR H. OSBORNE MANCE, assisted by J. E. Wheeler. (New York: Oxford Univ. Press. 1944. Pp. x, 117. $1.00.)

*International Sea Transport.* By BRIG. GEN. SIR H. OSBORNE MANCE, assisted by J. E. Wheeler. (London: Oxford Univ. Press. 1945. Pp. xii, 198. 12s. 6d.)

Both of these volumes are part of a timely series that has been prepared and issued under the auspices of the Royal Institute of International

Affairs; and both profit from the long and intimate experience of the senior author, at present the United Kingdom's representative on the Transport and Communications Commission of the United Nations, with both the commercial and military aspects of international communications and transportation. As a result these studies are comprehensive and include a consideration of the legal, technical and military aspects of these industries as well as their commercial, political and economic phases. While their brevity precludes a definitive treatment of these several facets of the international transport problem, the selection of material is judicious; and although the volumes are largely descriptive, analysis is not entirely eschewed.

*International Air Transport* describes first the international organizations and agreements that regulated prewar air transportation between sovereign states; and the resulting confusion and jurisdictional overlapping.

The second part describes international air services as they were organized prior to 1939, from which the customary conclusion is drawn, *i.e.*, the importance of aviation as a political and military instrument combined with the frequent need for subsidies on international routes brought a large amount of government participation to the industry. Although the proportion of prewar airline revenues from subsidies was declining, the emphasis on increased speed indicated that government aid would continue to play an important role. The advantage of the large territory of the United States for airline development is contrasted with the fragmentation of European air organizations, and in the concluding chapter is construed as an argument for internationalization. The authors foresee a promising future for private air cargo carriers.

A third section deals with the inseparability of civil aviation from military aviation. The brief review of the internationalization of the industry that was unsuccessfully attempted in 1932–34 should provide a salutary specific for those who may still oversimplify the political difficulties of living in "one world."

In a final section the authors express their opinions on the future of international air transport. They favor the concentration of technical regulation in the hands of a single world-wide authority which they foresaw as a possible adjunct of the United Nations. Furthermore, they feel that the inseparability of the military and civil aspects of aviation and the movement from *laissez-faire* towards planned economy will make future international collaboration in air transport at least as much a matter for governments as it has been in the past. As a result, they believe the formation of international corporations to be the best method for eliminating competitive subsidies and providing for the carriage of what has subsequently become known as "fifth freedom traffic." Realizing that hardly any government has been willing to take the possibility of international companies seriously, the authors advocate regional pools of national air lines, but this too they admit "lies on the extreme edge of practical politics" in much of the world. "The question is, therefore, how to safeguard the world from the use of civil aviation for purposes of aggression while allowing the freedom necessary

for the encouragement of development for innocent uses" (p. 103). Realizing that nothing less than world-wide measures will meet the case, the authors return to their advocacy of international companies or pools of national companies with an international organization licensing air services, airports and aircraft construction "on a similar basis to air licensing in Great Britain or the U.S.A. . . . , *i.e.*, public convenience and necessity with a desirable measure of competition" (p. 104). One cannot but wonder how much desirable competition would exist; but the cut-throat competition that could result from competitive subsidies and other still greater evils may be the alternative.

While some of the material in this volume has become dated as a result of international air conferences that have been held subsequent to its original publication in London in 1943, it remains an interesting and valuable study. The account of the inchoate organization of international aviation and the lack of coordination between the eastern and western hemispheres in the prewar period indicates clearly the need for more thorough and universal coverage of these problems if full advantage of air transportation is to be enjoyed by the postwar world.

*International Sea Transport* declares that shipping is not only one of the oldest forms of transport, but that "it is still by far the most important," carrying over three-fourths of the volume of the world's international trade, "including the raw materials on which modern civilization so largely depends" (p. x).

The prewar international organizations, both official and private, that contributed to the coordination of the technical, legal, labor and commercial aspects of the industry are briefly described. The interwar political and economic factors are then investigated, and the authors conclude, after examining the shipping policies of the principal maritime countries, that "The integration of shipping policy in the general policy of the State has proceeded apace since the last war [World War I], and international shipping competition, which was almost entirely commercial at the end of the nineteenth century, had become to no small extent political at the outbreak of the second world war" (p. 63); the reliance on merchant shipping becoming even greater as naval programs were reduced by international agreements (p. 66). In spite of what appears to me as a slight (possibly unconscious) pro-British bias, the recent history of subsidies, discriminations and state control is well handled. The authors' support of the deferred rebate system, however, on the grounds that "the practice of rate-cutting in United States trades was becoming more prevalent *because of the growing realization by foreign-flag operators of the vulnerability of the conferences which were forbidden to use the deferred rebate system*"[1] is open to question. The permissible contract rate system is not entirely ineffective, and moreover there were other important influences at work. It is not unlikely that entry into American trades may have been stimulated by the desire for dollar ex-

[1] Italics supplied by the reviewer.

change, and by the weakness of American lines resulting from the political uncertainties growing out of the ocean-mail contract investigation and the subsequent shift to the outright subsidy system as provided by the Merchant Marine Act of 1936. The treatment of the abortive attempts to rationalize international shipping in 1933, and the success of the more limited proposals restricted to tramps and tankers that were effectively introduced in 1934, covers the ground satisfactorily in the few pages devoted to the subject. The chapter on international collaboration in wartime is also well done, although this section was apparently written before the creation of the United Maritime Authority which has become the cocoon out of which an international shipping organization is now expected to evolve.

The final chapter which deals with the future is naturally the most stimulating and provocative. The authors conclude that the major problems that have faced the industry since World War I have not been technical, but political and economic. Nongovernmental solutions (*e.g.*, shipping conferences) have not been entirely successful and have not accorded the consuming public representation or protection. (Note the similarity to industrial cartels and international commodity agreements.) One or more international organizations are therefore recommended to undertake the following functions: (1) technical problems; *e.g.*, safety, health, legal, labor, etc.; (2) commercial—to mitigate the effects of unrestricted international competition; (3) security and prestige. "There would seem to be no difficulty over sea transport if the major problems of collective security are successfully solved. One is tempted to suggest that there is not much hope for improving international shipping relations if they are not" (p. 171). Assuming collective security to be achievable, the authors propose an economic approach to the problem of world tonnage and its ownership. An interesting proposal is made which would permit high-wage countries to employ differential subsidies.

Where contact between nations is as continuous as in aviation and shipping the possibilities of friction are great, and the authors have provided excellent summaries of the large amount of international collaboration that has already taken place, and of the still wider and more universal cooperation that is required. While one may question the specific mechanisms proposed, the general objective is unmistakably revealed. These volumes constitute excellent background material for anyone wishing to follow with cognizance the activities of the Economic and Social Council in matters concerning these industries.

Some objection may be taken to the organization of these studies, but thorough cross-references keep the reader on the beam. It is astonishing that in an otherwise well-documented work the volume on air transport contains a map without specifying the scale or projection. Both books contain well-selected bibliographies.

DANIEL MARX, JR.

*Dartmouth College*

## Economic Geography; Regional Planning; Urban Land; Housing

*Roofs or Ceilings? The Current Housing Problem*. By MILTON FRIEDMAN and GEORGE J. STIGLER. (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, Inc. 1946. Pp. 22. 25¢.)

This well-written, closely reasoned, popular pamphlet outlines a case against rent control. In the authors' opinion "rent ceilings . . . cause haphazard and arbitrary allocation of space, inefficient use of space, retardation of new construction and indefinite continuance of rent ceilings, or subsidization of new construction and future depression in residential building. . . ."

"Unless removal of rent ceilings would be a powerful new stimulus to inflation, therefore, there is no important defense for them. Actually higher rents would have little direct effect on inflationary pressure. . . ."

According to Professors Friedman and Stigler "legal ceilings on rents are the reason there are so few places for rent . . . if rents were freed from legal control and left to seek their own levels, as much housing as was occupied before the war would be distributed more equally than it was then . . . until there is sufficient new construction, this doubling up is the only solution" (to the present housing problem). "The very success of OPA in regulating rents has therefore contributed greatly to the demand for housing and hence to the shortage, for housing is cheap relative to other things."

Continuation of rent control is now a major issue of public policy. This pamphlet, although written by economists who ostensibly employ economic arguments, must be classed as a political tract, of the same species as, *e.g.*, *The Road to Serfdom*, though even more timely and specific. Whether originally written as propaganda or not, the pamphlet unquestionably will be used as propaganda by the real estate lobby in their coming big push to wring immediate rent decontrol from the 80th Congress. One-half million copies have been ordered by a single organization—obviously for lobbying and propaganda purposes.

If one grants the authors' premises, both stated or unstated, the economic logic of this pamphlet is unassailable—as might be expected from such able technicians. On a policy issue however, the premises are the important thing. The following two premises deserve critical notice:

1. The stated premise that the present housing "shortage" is no worse (relatively) than before the war. This is based on the single statistical fact that the ratio of total United States population to number of occupied dwelling units is not now essentially different from before the war, namely about 3.6 persons per dwelling. Such a ratio is highly ambiguous and misleading. A proper ratio would be that of number of families desirous of occupying separate quarters, and able to pay for them, to habitable dwelling units available. This ratio has worsened appreciably compared with the prewar ratio. The population-occupied dwelling ratio is misleading because the Census counts as an occupied dwelling anything in which people live—regardless of the quality of the shelter. There are more occupied dwellings now simply because there are more families who must live somewhere.

Vacancies have shrunk to a minimum and many substandard and nonresidential structures have been occupied as dwellings. In brief, the premise that the United States has relatively as much housing as before the war rests on distortion and misuse of government statistics.

2. The unstated and very important premise that government controls are less efficient economically, and less desirably socially, than the free working of the price system. This is a fundamental issue of social philosophy.

Professors Friedman and Stigler hold that the housing shortage can be eliminated by rent increases. No one doubts this elementary economic principle—the question is whether allowing an inadequate supply of housing to be rationed by price is an equitable solution to the present housing problem.

In the short run, housing supply is highly inelastic in respect both to price and to income. Removing rent control would not necessarily get more houses built. Under the Wyatt program more housing was started than there were building materials to complete—the result was a lengthening of the average time required to complete residential structures. Since materials are still the limiting factor and their prices have already been decontrolled, higher rents, which no one doubts would follow decontrol, would, as an initial effect, merely enrich landlords and force more doubling up among the lower-income groups—already inadequately housed.

This pamphlet clearly illustrates the truth of the late Lord Keynes' classic remark that "The theory of Economics does not furnish a body of settled conclusions immediately applicable to policy" (Preface to the Cambridge Economic Handbooks). Friedman and Stigler evidently feel that their analysis does yield conclusions directly relevant to policy—regardless of complicating non-economic factors which they choose either to ignore or to rank below technical efficiency of the free price system. One important difference between theoretical analysis and policy formulation is that the theorist has complete freedom of choice among courses of action; the government administrator is always restricted to what is politically, legally, or administratively feasible at a given time.

Removal of rent controls now would not solve the housing problem, but it could easily contribute to worsening inequality in the size distribution of personal income, in real terms—a trend which Friedman and Stigler profess to deplore. If they really do and wish to speak out on policy problems they might perhaps better attack, *e.g.*, the plan for flat percentage reduction in personal income taxes—which is clearly regressive in effect.

ROBERT BANGS

*Washington, D. C.*

*Your City Tomorrow*. By GUY GREER. (New York: Macmillan. 1947. Pp. xiii, 210. $2.50.)

The unsightly, paper-littered, vacant lots and miles upon miles of blocks filled with delapidated houses and business establishments in the heart of our cities are matters of increasing concern to city planners and municipal officials in general. These eyesores are what remain when the more fortunate

citizens move to the suburbs to escape the crowding and high taxes of cities. With the loss of their best taxpayers and with property values deteriorating through neglect, many cities find it hard to make both ends meet. In this readable little book, based largely upon articles previously published in *Fortune*, Mr. Greer suggests ways and means of checking the blight of cities.

The discussion includes suburbs as well as the central city. The word "community" is used to include the whole metropolitan district, and it "refers always to the entire aggregation of such public services as transportation, police and fire protection, water supply, sewage disposal, etc." After explaining how the early planned growth of cities both in Europe and America gradually gave way to the present planlessness under the influence of *laissez-faire* in the 19th and 20th centuries, Greer summarizes briefly the first attempts to check urban blight. Zoning, garden cities, slum clearance, piecemeal improvements, all have been tried and found wanting because none of them has gotten at the root of arresting decay in the city's interior.

Only comprehensive planning can cure present urban ills and make our cities what they should be in the future. Mr. Greer sees no reason why cities should differ greatly in the coming Age of Atomic Power from what they should be today. In his scheme of procedure, city officials should first of all make a comprehensive master plan based on all available facts on the community as a whole—its resources and industries, people, present layout, land uses, housing, transportation, trends, and special problem areas. The plan must provide both for replanning the existing community and for future growth. Once the broad overall objectives are set, the planners may proceed to the practical problems incident to its adoption and execution.

All town planners run into three fundamental obstacles: (1) lack of adequate legal power in the local community; (2) an antiquated fiscal set-up, and (3) ignorance on the part of the general public. The first obstacle can be overcome by permissive state legislation giving urban communities, among other things, greater authority over land use and greater powers of eminent domain which will permit them to acquire large enough tracts of blighted areas to replan on an economic scale. The Kentucky laws authorizing joint planning and zoning for Louisville and Jefferson County are a step in this direction.

The crux of fiscal difficulties derives from the fact that municipalities are still dependent for the bulk of their tax revenues upon real estate taxes. In the days when most of the national wealth was in real estate that was satisfactory, but now that the bulk of wealth is in corporations, municipalities no longer get their just share of taxes. Without state or federal aid, therefore, they are unable to carry out needed rehabilitation. Mr. Greer advocates a thorough overhauling of the whole tax structure to allocate a fair share of revenue to the cities, but in the interim he suggests two rather startling methods of increasing local funds. In the first place, he suggests that the federal government assume the entire expense, but not the administration, of education. Secondly he suggests that all gasoline and motor vehicle taxes be retained locally. With these additional sums, cities should be able to undertake comprehensive planning.

The matter of educating the public may be done by a variety of methods, press and radio campaigns, competitions, or citizens' committees. Mr. Greer's own book is one method. Addressed to the average citizen, it presents a complex problem with the clarity and simplicity that only an authority can supply. The author has had practical experience in the field, both with the federal government and as one of the editors of *Fortune*, in the Syracuse, New York, planning project. He gives both the experience with the Syracuse project and Boston's prize contest for a master plan as concrete examples of how comprehensive community planning may be initiated.

Although Mr. Greer has such practical suggestions to make regarding the preparation of a master plan and the means whereby the obstacles to its execution may be overcome, he stops short of the method of administration after the plan is adopted. For a consideration of that problem, the serious student must go to other recent books on the subject such as *New City Patterns*, by S. E. Sanders and A. J. Rabuck. But since Greer's book is designed primarily to educate the general public to the need of comprehensive planning, perhaps it should stop with the adoption of a plan. Once a need receives popular recognition, technicians can always work out methods of administration.

Incidental to his main thesis of comprehensive community planning, Mr. Greer includes a penetrating analysis of the accomplishments and shortcomings of the United States Housing Authority and of various rehabilitation schemes for blighted areas. Also deserving of special mention is his final chapter on *A Vision of Fair Cities* which should convince the most skeptical citizen that our cities might be made pleasanter places in which to live.

VIRGINIA TURRELL

*Smithtown Branch, N. Y.*

## Labor and Industrial Relations

*A National Labor Policy*. By HAROLD W. METZ and MEYER JACOBSTEIN. (Washington: The Brookings Institution. 1947. Pp. ix, 164.)

This is the second volume[1] in "a systematic study of federal labor policy" begun by the Brookings Institution in 1943. In contrast to the first volume, which purported to be "confined to the presentation of the facts," this study "appraises existing labor policies and makes concrete suggestions for appropriate modifications."[2] Since the recommendations set forth in the second volume are based on the facts presented in the earlier work, it has not been possible to appraise one book without reference to the other.[3]

Part I of *A National Labor Policy* sketches with not too great accuracy

[1] The first was Harold W. Metz, *Labor Policy of the Federal Government*, 1945.

[2] From Harold G. Moulton's preface to *A National Labor Policy*, p. v.

[3] The earlier book was glowingly reviewed in the September, 1946 issue of this *Review*, pp. 709–11. For a different evaluation, see Herbert R. Northrup, "Literature of the Labor Crisis," *Pol. Sci. Quart.*, Vol. LXI (Sept., 1946), pp. 426–29.

the background and present status of federal labor policy and the "Political Aspects of the Labor Movement" in a bare fifty pages. After "National Goals and Requirements" are laid down, the remainder of the book is concerned with specific recommendations which include the following: (1) Illegalizing by anti-trust legislation simultaneous strikes by unions "against two or more employers for the purpose of restricting or limiting the movement of goods in interstate commerce" and the corollary outlawing of multiple-employer bargaining units; (2) Outlawing of sympathetic and jurisdictional strikes; (3) Denying protection of the Wagner Act to employees or unions striking in defiance of contract or engaging in violence; (4) Terminating bargaining rights of unions which picket in violation of the Wagner Act (cross picketing), which otherwise picket to attempt to cause a law violation, which place untrue statements on pickets' placards, or which engage in mass picketing or violence; (5) Outlawing boycotts by "criminal means, injunctions, civil damages, and the suspension of the bargaining rights of the unions which utilize the device"; (6) Outlawing all forms of union security; (7) Requiring unions to bargain; (8) Delineating by law the nature of the obligation to bargain and the subject matter thereof; (9) Making collective agreements enforceable and unions suable under federal law; (10) Requiring unions selected as exclusive bargaining agents to be open unions, democratic in organization and structure, and free from guilt in any of the above proscribed activities; (11) Granting greater "free speech" to employers; (12) Reorganizing of the National Labor Relations Board to require court rules of evidence, separation of prosecuting and judicial function, and enlarging its membership to seven or nine; (13) Reorganizing the U. S. Conciliation Service as an independent branch of the Executive Department.

The recommendations present a curious anomaly. On the one hand, the authors would reduce unions to local organizations. On the other, they would subject them to enormous federal control. It should be noted that no corollary treatment is proposed for business, which is to be permitted to retain its interlocking relationships, holding companies and multiple plant ownership structure. To take a current example, American Telephone and Telegraph Company may continue to set the labor policy of its controlled affiliates, but if the National Federation of Telephone Workers attemps a similar strategy, it is to be restrained by "anti-monopoly" legislation!

Messrs. Metz and Jacobstein contend that collective bargaining works best at the local level; that industry-wide bargaining tends to promote price fixing, "political determination of conditions of employment," and government intervention in labor disputes and that it places overwhelming bargaining power in the hands of the union over the employer. They also declare that the NLRB has tended to use every opportunity to promote the widest possible bargaining unit and to establish multi-plant bargaining units.

These arguments are undocumented, inconclusive, superficial and contra-

dictory. On page 57, the authors state that unions perform a definite function by preventing price cuts. Four pages later, they argue that unions maintain wages (and hence prices) too high and therefore must be shorn of their effective power. For the most part they appear to generalize from the experience in the coal industry where labor relations have rarely been satisfactory no matter what has been the scope of bargaining. The justification for such generalization has yet to be demonstrated.

As a matter of fact, the pros and cons of industry-wide bargaining, which are so superficially treated here, have not been fully explored anywhere. How, for example, would such a ban affect collective bargaining in the building, garment, maritime or other industries where typically a single worker is employed by numerous companies over a short period? The application of antimonopoly laws to collective bargaining involves the use of a mechanism ill fitted to labor relations and one which has been anything but an unqualified success in its own field. Such a ruthless smashing of established collective bargaining relationships as these authors propose is likely to aid no one. Moreover, as Professor Slichter has pointed out, "The prohibition of industry-wide bargaining could impose a grievous burden on employers because it would help unions pursue the policy of 'picking them off one at a time' . . . for many small employers bargaining as a group is their only hope of gaining some rough equality with large and powerful unions."[4] Such a policy could be pursued by local as well as national unions in many industries.

Finally, it should be emphasized that in so far as reference is made to NLRB policy, the authors base their recommendation on Metz's fundamental misconception of the NLRB's bargaining unit policy in general and its "Globe" doctrine in particular. In his previous work as well as in this one, Metz declares that the NLRB continually strives to set the widest bargaining unit possible and to encourage the formation of multi-plant units at the slightest opportunity, and he further states that the "Globe" doctrine is an instrument to this end. Actually, of course, the Board policy is much more nearly the exact opposite and the "Globe" doctrine permits small groups of workers to establish themselves as bargaining units apart from larger industrial units. The whole trend of Board cases since 1940 has been away from the larger unit doctrine, as nearly all students of the problem have pointed out on many occasions.[5]

The proposal that the Wagner Act should be amended to exclude from its protection strikers and employees guilty of violence is based on a misunderstanding of NLRB policies. The Board has repeatedly refused to order reinstatement of strikers guilty of serious misdemeanors, and again in the words of Professor Slichter, "In the case of strikes which are not provoked

[4] S. H. Slichter, "To End Strikes in Essential Industries," *New York Times Magazine*, January 12, 1947, p. 51.

[5] See, *e.g.*, D. O. Bowman, *Public Control of Labor Relations* (Macmillan, 1942), Part III; *National Collective Bargaining Policy* (Industrial Relations Counselors, Inc., 1945), pp. 25–27; C. O. Gregory, *Labor and the Law* (W. W. Norton, 1946), pp. 239–52.

by unfair labor practices, the employer is not required to dismiss men hired during a strike in order to rehire strikers."[6]

Few will quarrel with constructive provisions designed to control sympathetic and jurisdictional strikes. Merely proscribing them, however, is not sufficient. Methods must be developed to deal with them. For example, it might be well to divide jurisdictional strikes into two categories. The traditional type involving a quarrel over what craft should do a certain piece of work might be settled by requiring the parties to agree to binding arbitration, but in the event of their failure to do so, providing that the Secretary of Labor appoint an arbitrator with power to issue a binding award enforceable in the courts. Jurisdictional strikes over the right to represent employees should be settled through NLRB procedure with the Board's power enhanced so that it could order unions as well as employers to cease interfering with bargaining agent determinations and secure the enforcement of such orders in the courts. This latter procedure would be ample to take care of the problem of cross picketing, secondary boycotts, and similar questionable labor practices and would be much more satisfactory than either criminal sanctions, which are generally inappropriate, or than terminating bargaining rights, which removes from the scene (and from effective sanctions) those with authority to effectuate a settlement.

In their zeal to exterminate undesirable union practices, the authors would deny a union the right to place untrue statements on pickets' placards. Falsehoods are, of course, reprehensible, whether broadcast through picketing signs, nationwide advertisements, or any other media. The authors appear to forget, however, that free speech is a constitutional right, and that censorship of any medium of expression is repugnant to that right.

The reviewer agrees with the authors that the closed shop is a generally undesirable practice. He does not believe, however, that merely outlawing it will have any great effect. As in Great Britain, union men will merely refuse to work with non-union men, which is their legal right. Such a practice would also cause a further disregard for law and order which the authors are so anxious to preserve. Moreover, it is neither fair nor accurate to propose outlawing all union security clauses on the basis of arguments against the closed shop. It would seem more advisable to get at the evils of the closed shop by requiring all unions to remain open unions and setting up impartial machinery for review of any discharges initiated by unions pursuant to union security clauses. The NLRB would be the obvious administrator of such provisions.

The proposals to make unions "suable" and to delineate the required contents of collective agreements have not been very well thought out. As a matter of fact, unions can now be sued in most jurisdictions. A special law making collective agreements "enforceable" may be desirable to end confusion, but the authors apparently are not aware of what they are asking. Except for illegal stoppages, of which there are few, unions have little opportunity to violate contracts, which are primarily management regulating

[6] Slichter, *op. cit.*, pp. 7, 51.

devices. As a result of actions of foremen, many unintentional, management would be the defendant in more than three-fourths of the cases arising from such an invitation to take labor relations to the courts.

Just how the authors would delineate what management must bargain about with unions in view of the wide diversity of subject matter which is now found in collective agreements, they do not make clear. One gathers that Congress ought to legislate away possibilities of change or differentiation among industries, neither of which is likely to be satisfactory nor conducive to labor peace.

The recommendation that unions, like employers, be required to bargain is in line with most thought today. It represents, in fact, equalization of the Wagner Act and is long overdue.

In suggesting that the unions selected as union bargaining agents should be democratic in organization and should remain open unions, the authors have made a worthy contribution. It should be pointed out, however, that both the NLRB and the courts have already taken formative action in this direction. Moreover, it will not be enough to require that democratic practices be made a condition of certification by the NLRB. The most racket-ridden unions in this country—those in the building, amusement, and longshore industries—rarely, if ever, use the machinery of the NLRB. Consequently, it would seem preferable either to set up a separate agency to deal with the problem, or as proposed by the American Civil Liberties Union, to grant the NLRB requisite authority. If the last is done, special attention must be given to the problem of race discrimination which has flourished in the railroad unions under the Railway Labor Act, and over which the NLRB has no jurisdiction.

The idea that the NLRB denies employers "free speech" is one which has a rather fatal fascination for many observers, but which is, fortunately, not accurate today. It is based on the regrettable zeal of the first members of the Board to curb employer unfair labor practice, but since 1942, at least, has had little basis in fact. Nevertheless, the authors (having regained their concern with free speech which they neglected when dealing merely with pickets' placards), repeat the ill-founded charge here (and Dr. Metz re-echoed it before the Senate Labor Committee) and go on to suggest appropriate remedies. The reviewer is at a loss to determine what can be gained by writing a constitutional right into a particular piece of legislation, but perhaps it is one way to satisfy the emotions which recent labor disturbances have engendered. Certainly it will do no harm, but it is only fair to note that it will contribute nothing to sound industrial relations nor will it change the policies of the NLRB.

The idea that the NLRB should be reorganized to separate its judicial and prosecuting functions has an alarming emotional appeal. It ignores the NLRB's fine record of minute observance of due process; the fact that there are numerous agencies operating under similar procedures concerning which no similar suggestion is made; and the fact that Congress has enacted a far reaching administrative procedure act to guard against any administrative excesses. It would destroy the efficiency of the administrative process, and

particularly, act to prevent compromise off-the-record settlements which the Board now secures in 85 per cent of its cases. It will be a questionable gain indeed if, to comply with some fine legal theory, cases before the NLRB are further slowed down and formalized to such an extent that quick informal settlement is rendered impossible. The authors might better have recommended that the NLRB be given sufficient appropriation to fulfill its task in the manner Congress originally intended, but which has since been made almost impossible by successive budget cuts.

The reviewer has confined his attention largely to the recommendations. Basic to them, however, are the book's statements of alleged fact and its tone. The former are mainly summarized from Metz's earlier work concerning which adequate comment has been made.[7] It may merely be emphasized that the two books, taken together, are replete with errors and with misstatements of fact and policy, which are in turn derived from questionable sources and biased or unwarranted interpretations.

As to the tone, *A National Labor Policy* (like its predecessor volume) is distinctly partial. Labor has been painted as an all-powerful colossus which must be broken up in the public interest; industry as a thoroughly regulated group over which the body politic has adequate control. Despite some truth in the painting, it remains a caricature. Published by an organization which is "Devoted to Public Service through Research and Training in the Social Sciences" and which previously had sponsored Professor Slichter's scholarly *Union Policies and Industrial Management*, *A National Labor Policy* (and Metz's previous book) can only serve to confuse and bewilder.

Perhaps even more unfortunate than partiality is the lack of a labor relations point of view. Rather, the book smacks of an emotional reaction to a problem which requires a thorough and dispassionate analysis. For the most part, the problems on which the authors touch are merely surface manifestations of a central issue, the role of unions in our society, upon which they shed little light. The authors, moreover, demonstrate little understanding of the chaos, disrespect for law, and general confusion which would result from their unworkable recommendations. Certainly most of the recommendations would not only curb the strength of unions, but they would greatly enhance the difficulties of industrial management and materially reduce the opportunity for industrial peace based on mutual understanding.

HERBERT R. NORTHRUP

*New York School of Social Work,*
*Columbia University*

*Wages under National and Regional Collective Bargaining.* By RICHARD A. LESTER and EDWARD A. ROBIE. (Princeton: Princeton Univ. Industrial Relations Section. 1946. Pp. 103. $1.50.)

This report, the first of three related studies in the field of wage determination undertaken by the Princeton Industrial Relations Section, seeks

[7] See note 3, *supra*.

to answer the general question of how the machinery for national or regional collective bargaining has operated where tried. The remaining two studies will attack the problems of the determinants of company wage policies and the maintenance of an effective program of job evaluation within the company.

The specific objective of the present report is "to discover the problems and probable success that would be likely to attend attempts to achieve wage uniformity through regional and national collective bargaining in large manufacturing industries. The study, therefore, emphasizes factors that tend to disrupt wage equality under multiple-employer bargaining as well as factors that encourage or reinforce wage uniformity." This it does by staccato ten-page factual surveys of the experience of national or area negotiations in seven industries. The nature of its findings is suggested by the chapter headings: Wage Uniformity in Pressed and Blown Glassware, Wage Uniformity in the Pottery Industry, Declining Wage Equality in the Stove Industry, Uniform Piece Rates in Full-Fashioned Hosiery, Uniform Time Rates in Silk and Rayon Dyeing and Finishing, Increasing Wage Equality in Flat Glass, Uniform Time Rates in West Coast Pulp and Paper. There follows a chapter of conclusions which provides at the same time a rather nice summary of the more significant observations within each of the seven industries reviewed. An abbreviated appendix on Swedish and British experience with wages under national bargaining completes the book.

The Princeton Industrial Relations Section and the authors of this study are to be congratulated for this foray into territory that has long demanded exploration. At the same time, by their own admission that from the present study "only tentative conclusions can be drawn," it is clear that more extensive and intensive investigation is still required. This report but points the way, as the authors would probably be the first to admit. Because this is the case the following comments are less by way of criticism than suggestion.

The problems of wage determination under industry-wide bargaining require sharper definition. For example, the intricacies and perplexities of setting uniform wage schedules in an industry of more than one employer are probably central to any such study, as is here recognized. But what are the questions which require examination and answer? Their number must be pruned to manageable proportions and they must be made specific enough to provide the focus which this more general survey lacks. Absence of focus has given a picture of indistinct outline. Thus the report concludes that wage uniformity is not essential under national wage negotiations, but the examples cited indicate only that uniformity may be based on standards other than geography, occupation or technology. What governs the choice of standards? Are the attending problems the same under each? Focus is needed to shape the issue.

Analysis of the problems of wage determination under industry-wide bargaining requires fuller development. The conclusions of this study, offered essentially as factual observations, provide only a point of departure. Certain questions cry out from the pages. On page 91, for example, it

is found that wage uniformity is more easily maintained for piece rates and for occupations or skills peculiar to an industry than for time rates and occupations common to a number of industries. On page 92, in different context, it is noted that of the seven industries studied greatest employer opposition to wage uniformity exists in the flat glass industry. Is this opposition in any way related to the fact that organized employes in flat glass are primarily on time rates (plus incentive) and to an important extent are semi-skilled or unskilled? Since of all the industries analyzed flat glass exhibits the greatest industrial concentrations and is more akin to other large-scale industries, this inquiry would seem pertinent to the feasibility of wage uniformity through national bargaining in large manufacturing industries, determination of which constitutes a primary purpose of the study. The chapter on conclusions is, however, singularly free of emphasis on large-scale manufacturing and the significance of the findings with respect to it. Sharper focus of the issues must of course precede the fuller analysis to which this study points.

Concepts and criteria of judgment must be more adequately explained than in the present report. What, for example, shall be adopted as a measure of wage uniformity—rates or earnings? What are "the economic interests of the industry as a whole?" In what sense are national wage agreements a "stabilizing factor" (p. 10), a "stabilizing influence" (p. 20), a "stabilizing force" (p. 67), a contributor to "stable relations" (pp. 20 and 88)? What is meant by "stabilization" of the industry (pp. 22, 30, 61 and 77) or "industrial stability" (p. 63)? In what context are identical direct labor costs between mills a "stabilizing influence" (p. 57), or does an employers' association exert a "stabilizing influence" (p. 60) or non-union competition constitute an "unstabilizing factor" (p. 43)? It is not that there is no meaning to such concepts but that there is more than one meaning, so that intent is obscured.

Inter-industry comparisons are treacherous at best, and some of the deficiencies of this report are all but indigenous to a pioneer work. Both specialist and non-specialist will nonetheless find this a useful piece of work. To those who build upon its foundation it will prove most valuable and suggestive.

NEIL W. CHAMBERLAIN

*Yale University*

*Mutual Survival—The Goal of Unions and Management.* By E. WIGHT BAKKE. (New Haven: Yale Labor and Management Center. 1946. Pp. v, 82. $1.00.)

To get the basic data for this little book Mr. Bakke interviewed some sixty leaders in management and sixty union leaders in nine industrial centers of the United States. In his foreword, Mr. Bakke indicates that each of the persons interviewed was "encouraged to speak freely under a pledge of strict confidence concerning his relations with management or organized labor, as the case might be, and concerning the nature of his own task which placed compulsions upon him in his dealings with the other party."

In its organization the book falls into two parts. In the first chapter, "Effective Unions and Sound Management," and the last chapter, "The Basic Issue," the author presents some of his own views on labor relations. The intervening chapters entitled "Management Looks at the Union," "Management Speaks for Itself," "Union Leaders Look at Management," and "Union Leaders Speak for Themselves" represent an ingenious reporting technique. In the chapters concerned with management's views of labor unions and conversely the trade union leaders' views of management, the author summarizes the major problems faced by each of the protagonists *vis à vis* the other. Specific examples of the problems are given, the assumptions ascribed by each group to the other in the social structure are brought to light, and the favorable factors, *i.e.*, compensating considerations arising out of collective bargaining, are presented.

Some of the problems facing management, according to Mr. Bakke, are "infringement on management function, prerogatives and freedom," "development of loyalty of employees to the union by means which reduce loyalty to the firm," "use of unsound economics (in collective bargaining)," etc. The sort of problems which the union faces are "resistance to increasing the area of terms and conditions of employment determined collectively," "winning loyalty to the company often at the expense of the union," "dealing with the union as an 'outsider,' a third party, and not as an integral part of the enterprise," etc. These examples are given to indicate that Mr. Bakke's findings regarding conflicts of collective bargaining are essentially of the same nature and content that other students in the field have considered. On the other hand, the examples given by the author do point up some of the specific areas of conflict.

Each of the chapters devoted to classifications of types of conflict are followed by chapters in which excerpts from the conversations which Mr. Bakke had with management and labor leaders are presented. They make interesting reading but add little to the general fund of knowledge concerning the personal relations existing between representatives of management and trade union spokesmen.

In the first chapter, which is in effect a summary and tentative conclusion of the study, Mr. Bakke argues that collective bargaining is a business process by which industry, as an institution, and the trade union, as an institution, accommodate or adjust one to the other. In this process a code of behavior is developed which has as one of its objective manifestations the trade union contract. Mr. Bakke is of the opinion that "the great majority of employers and labor union leaders are not out to 'bust' or 'hamstring' or take over the other. But they can do that without intending to do so by fighting for their own survival in ways which endanger the survival of the other. The end result will be the overwhelming of both free management and free unions" (p. 18). In other words, Mr. Bakke is of the opinion that the process of adjustment and accommodation by unions must be of such a nature as to permit the survival of management and *vice versa*. If this is not done, "they will all go down together in the resulting chaos or in the regimentation which will arise from public demand to avoid chaos. Free

unions, free management, free enterprise and free society will survive or go under together" (p. 18). This thesis is neither new nor does it lack support among many if not most of the "liberals" of our society. In this particular work, however, Mr. Bakke offers no hint of procedure by which this accommodation and adjustment takes place, nor of the sorts of agreement which might distort or destroy "the highly delicate mechanism of the American Economy," as well as the democratic political structure. These considerations seem to be crucial questions to the reviewer. Perhaps the work in process or work to be undertaken by the Labor Management Center specifically deals with an analysis and evaluation of the processes of adjustment.

Mr. Bakke holds no brief that he has written a definitive work on the question of mutual survival of unions and management. He modestly indicates that the present interim report grows out of "one of the projects tributary to the major project 'Determinants of Reactions to Unions by Workers, Management and the Public.'" To one interested in the general field of labor, the larger study as well as the four or five other studies presently being conducted by the Labor and Management Center at Yale University and dealing with various phases of the economics, psychology and sociology of labor relations, must be eagerly awaited.

SIDNEY C. SUFRIN

*Syracuse University*

*Industrial Peace and the Wagner Act—How the Act Works and What To Do About It.* By THEODORE R. ISERMAN. (New York: McGraw-Hill. 1947. Pp. 88. $1.50.)

*Getting Along With Unions.* By RUSSELL L. GREENMAN and ELIZABETH B. GREENMAN. (New York: Harper. 1947. Pp. 158. $2.50.)

These two small volumes, both written from the viewpoint of management by persons with experience as management agents, provide a study in contrasts. The Greemans discuss the art and problems of collective bargaining. Mr. Iserman directs himself to the problems related to the National Labor Relations Act. Although the treatment is set by the framework of their purposes, there are many points where the same subject matter and issues fall within the scope of each. The diversity of opinion in the two booklets is marked.

The major contrast is in the attitudes which are revealed at almost every point. The Greenmans impress with a spirit of fairness and a sense of understanding, and impartiality. Theirs is not a one-sided treatment. One might not agree with them on all of their suggestions or conclusions, but one will be impressed with the wholesomeness of their approach. This cannot be said of Mr. Iserman's volume. Its tone is caustic, if not vitriolic. It purports to be a serious appraisal of the National Labor Relations Act but is more nearly an elaborate restatement of an oft heard and easily recognized emotional viewpoint. It is a one-sided attack of questionable constructive value. Although it remains true that many valid issues are raised, they are

so mixed with invalid ones and so indiscriminately and subjectively treated that the booklet fails to enlighten; it will lead the undiscriminating person astray; and it requires prior knowledge with which to discriminate between the good and bad. It would appear useful only as an expression of a particularly narrow viewpoint. Nevertheless, the booklet also has the pedagogical value of raising true and false issues without adequate identification and of laying down so many false or biased conclusions that the instructor can have a "field day" in illustrating the pitfalls of prejudice and the crying need for clear, straight thinking about the really fundamental and true issues in the field.

The thesis of Mr. Iserman's work is that the Wagner act has failed and that, even without poor administration, which he attempts to show has been characteristic of it, the act, unless extensively altered, would always fail, being based on false premises. He accuses the Board of having annihilated little unions and with having created big ones through its administrative policies. Not even for a moment is there any recognition that the growth in size of unions is closely related to the structure of our economy. Mr. Iserman does not say that big craft and industrial unions are, perhaps, inevitable when freedom to organize is allowed. "One clear result of the Wagner Act," he complains, "has been to increase the money and members behind the often quarrelsome men who have led the great federations and the unions that compose them."

He arrays fourteen important developments and only excuses some who voted for the Wagner Act on the ground that they failed to see the results. The classification is haphazard. First in his list of developments which presumably could have made for a difference in the voting is his contention that the Supreme Court in upholding the power of Congress to compel employers to bargain collectively "by the same token, showed that Congress can forbid collective bargaining or restrict it severely." It may be wondered how many people were ever unaware of this. Other developments which he claims the supporters of the act failed to see are the following: rapid growth in union membership, strong unions more than a match for employers, lessened importance of independent unions, the C.I.O. as a rival of the A.F. of L, the National War Labor Board to which unions carried their problems instead of to collective bargaining, the unions' claims to political strength to which legislators "appeared to be sensitive," the wage increases of the war and postwar years the effects of which "are not yet clear," the refusal of the courts to restrict the Board, the presumption of the Supreme Court "that members of the Board are generally better qualified than courts to deal with matters under the Act," and the expectation that complaints against the act and Board would avail little and that the President would veto the Case bill. Why all of these things should be arrayed against the judgment of those who supported the enactment of the act is not clear.

Underlying each of Mr. Iserman's criticisms of the Wagner act is his objection to the increased power which unions have acquired. He complains that the act "clearly shifts the balance to favor employees against em-

ployers." Elsewhere his criticism is of the power unions have been given over employees and the destruction of minorities and independent unions. After discussing various other points he concludes with the revealing note that the remedy lies "in making the power relatively commensurate with the unions' *proper needs*" (italics supplied). The "proper need" appears to be weak unionism.

To specifically illustrate the contrast between the approach contained in the two volumes we might look at the way the issue of unionization of foremen is treated. With considerable feeling Mr. Iserman holds that "contrary to the Act's intent" the "Board unionizes management people," and contends that "the Board has disregarded the clear language of the Act" and has thereby impaired the act's declared purpose to increase output. Finally, he holds that unionization of foremen is inconsistent with American ideas. The Greenmans, on the contrary, do not see the organization of foremen as growing from the malicious intent of the Board in misapplying the act. They see it originating in the "mounting tendency in management to take away many powers which used to be vested in foremen—the hiring, demoting, and laying off of employees and granting wage increases,"—and as an effort on the part of foremen "to restore their bargaining position in relation to top management." They conclude that "there is nothing in the Wagner act to prevent management from giving to its foremen sufficient authority and responsibility to make them management representatives 100 per cent." They suggest that if this is done "perhaps the foremen themselves will decide that their interests lie with management and not with any labor organization." Herein is found the core of the problem. It is not found in amendment of the Wagner act.

Likewise, a contrast is found in the treatment of seniority. Whereas Mr. Iserman deprecates the power of unions to acquire seniority clauses in contracts with employers, the Greenmans recognize that the drive for seniority existed prior to the act and has always been given consideration even in the absence of unionization. They are not unaware, however, of the implications of seniority provision and give a realistic management discussion of the real issues it raises.

Again, Mr. Iserman says that "free speech should be restored." The Greenmans say "of course everyone still has the right of free speech. It is still possible for company executives to express their own opinions." This is the true position; for management only must guard against coercion of employees.

On the whole the Greenmans have written a book which will be profitably and widely read. It provides an excellent discussion of collective bargaining and reveals a healthful management approach to the needs of our times in this highly controversial field. Few categorical answers are given and any person, novice or expert, will be better equipped for having taken the time to read and reflect upon the experience revealed in its pages.

VERNON H. JENSEN

*Cornell University*

*Trends in Collective Bargaining.* By S. T. Williamson and Herbert Harris. (New York: Twentieth Century Fund. 1945. Pp. ix, 254. $2.00.)

Contrary to the implications of its title, this book is not primarily a study of trends. Here and there a bit of historical evidence is introduced but the study of trends as such is limited to a review of wartime experience. The content of the book falls into three fairly distinct sections.

The first section (Chapters 1–11) is concerned with the nature, extent, procedures and results of collective bargaining. This is largely digested from an earlier study published by the Fund, *How Collective Bargaining Works*. Some effort is made at critical analysis and evaluation but the analysis is essentially superficial and glosses over or bypasses the fundamental problems. The attempt, for example, in Chapter 1 to define collective bargaining recognizes, only to ignore, the basic fact that collective bargaining rests on actual or potential coercive power, and that an approximation of actual free bargaining may be found only in those situations in which coercive power is restrained either by law or market forces. For another case in point, the contribution of technological change to higher wage and hour standards is noted, but this notation is limited to two paragraphs in the wage chapter and one sentence in the chapter on hours of work. Such relative weighting throughout the section makes it a case for collective bargaining rather than a fundamental analysis and evaluation.

Mr. Harris, in Chapter 14, discusses the human relations aspect of industrial relations with special reference to collective bargaining. His discussion is interesting and suggestive, but largely hortatory. In effect it is equally critical of unions and management. Although Mr. Harris deals with a fundamental factor in industrial relations which derives from the mechanistic, specialized character of modern industry, he does not recognize the fact that the major part of the problem he deals with derives from the frustration caused by the deep, long continued unemployment of the 1930's.

The final section presents the Report and Recommendations of the Labor Committee of the Fund. The report is essentially an independent document in that no reference is made to previous sections of the book, and the "case for unionism" in the Report introduces a new and somewhat inconsistent argument. The case for unionism is made to rest on the tacit assumption that we have not had, and neither can or should have, a free enterprise system controlled by effective competitive markets (pp. 218–28). The Report argues for a species of syndicalism, to be implemented by the specific recommendation for more industry-wide collective bargaining. Both management and unions are exhorted at length to use such monopoly power in the public interest, but since no yardstick or public control devices to this end are provided it appears reasonable to assume that the Committee either deems exhortation to be sufficient or that it was unable to agree on any other formula. Two types of government interference with unions are advocated; (1) "fair labor practice boards" to make unions treat members properly; and (2) public audits and reports of union finances.

To the reviewer the central problem presented by unionism is the matter of a proper and workable delegation by the state of coercive power to voluntary associations of workers. Despite the fact that such delegation has already clearly gone too far, this Report would extend it. The only limitations proposed are those to protect members against their unions. Otherwise the problem is left to hope and exhortation.

R. W. STONE

*University of Chicago*

# TITLES OF NEW BOOKS

## Economic Theory; General Works

CHANDLER, L. V. *A preface to economics.* (New York: Harper. 1947. Pp. ix, 289. $2.50.)

GEMMILL, P. F. and BLODGETT, R. H. *Current economic problems.* 3d ed. (New York: Harper. 1947. Pp. viii, 760.)

KÄFER, K. *Johann Friedrich Schär und die entwicklung der betriebswirtschaftslehre mitteilungen aus dem handelswissenschaftlichen seminar der Universität Zürich.* Neue Folge 80. (Zurich: Schulthen & Co. 1946. Pp. 13.)

KERSCHAGL, R. *Volkswirtschaftslehre ein abriss der wichtigsten lehrmeinungen.* 3d ed. (Vienna: Manzche. 1946. Pp. xxii, 208.)

KNIGHT, F. H. *Freedom and reform—essays in economics and social philosophy.* (New York: Harper. 1947. Pp. 409. $3.50.)

PIGOU, A. C. *Income: an introduction to economics.* (London: Macmillan. 1946. Pp. 118. $1.50.)

*The American individual enterprise system.* 2 vols. By the Economic Principles Commission of the Nat. Assoc. of Manufacturers. (New York: McGraw-Hill. 1946. Pp. xiii, 587; 531. $10.)

*Economic research and the development of economic science and public policy.* Twenty-fifth anniversary ser. no. 3. (New York: Nat. Bur. of Econ. Research. 1946. Pp. ix, 198. $1.)

Twelve papers by distinguished investigators from England, France, Holland, Sweden and the United States. Contributions by W. C. Mitchell, A. Loveday, H. G. Moulton, E. A. Guldenweiser, Per Jacobsson, Charles Rist, R. B. Warren, L. W. Douglas, John Jewkes, Jan Tinbergen, R. H. Coats, J. S. Davis.

*The response of Jean Bodin to the paradoxes of Malestroit.* Translated from the French 2nd ed. (1578) by Col. G. A. Moore, U. S. Army, Retired. (Chevy Chase: Country Dollar Press. 1946. Pp. xviii, 90. $2.75.)

## Economic History

CLOUGH, S. B. and COLE, C. W. *Economic history of Europe.* Rev. ed. (Boston: D. C. Heath. 1946. Pp. xiv, 884. $5.)

Contains an added chapter on the second world war.

HACKER, L. M. *The shaping of the American tradition.* (New York: Columbia Univ. Press. 1947. Pp. xxiv, 1247. Textbook ed. $6.)

HELLEINER, K. F., editor. *Readings in European economic history.* (Toronto: Univ. of Toronto Press. 1946. Pp. x, 437. $4.75.)

Contents: The rise of dependent cultivation and seignorial institutions by Marc Bloch; Peasant life and rural conditions by Eileen Power; The agrarian problem in the sixteenth century by R. H. Tawney; The Merchant Adventurers Company in the reign of Elizabeth by George Unwin; The rise of the British coal industry by J. N. Nef; Mercantilism by E. F. Heckscher; The industrial revolution in the eighteenth century by Paul Mantoux.

LATOURETTE, K. S. *The history of Japan.* Rev. ed. of *The development of Japan.* (New York: Macmillan. 1947. Pp. vi, 290. $4.)

MAVERICK, L. A. *China a model for Europe.* Two vols. bound together. Vol. I, *China's economy and government admired by seventeenth and eighteenth century Europeans.* Vol. II, *Despotism in China* (translation of Francois Quesnay's *Le despotisme de la Chine* [Paris, 1767]) (San Antonio: Paul Anderson Co. 1946. Pp. xi, 334.)

SANDERLIN, W. S. *The great national project—a history of the Chesapeake and Ohio canal.* Johns Hopkins Univ. stud. in hist. and pol. science ser. LXIV, no. 1. (Baltimore: Johns Hopkins Univ. Press. 1946. Pp. 331. $3; cloth, $3.75.)

SCHOLES, W. V. *The Diego Ramirez visita.* Univ. of Missouri stud., vol. XX, no. 4. (Columbia: Univ. of Missouri. 1946. Pp. 97. $1.25.)

## National Economies

DAS, N. *Unemployment, full employment and India.* (Calcutta: All India Pub. Co. 1946. Pp. 70. Rs. 3.)

GALBRAITH, J. K. *Recovery in Europe.* An International Committee report. Planning pamph. no. 53. (Washington: Nat. Planning Assoc. 1946. Pp. 46. 25¢.)

GLICKMAN, D. L. *The big 4 in Germany—the treatment of Germany as an economic unit.* Planning pamph. nos. 54 and 55. (Washington: Nat. Planning Assoc. 1947. Pp. 76. 50¢.)

HADSEL, W. N. *Czechoslovakia's road to socialism. For. Pol. Report,* vol. XXII, no. 23, Feb. 15, 1947. (New York: For. Pol. Assoc. 1947. Pp. 11. 25¢.)

HOBMAN, J. B., editor. *Palestine's economic future.* (New York: W. S. Heinman. 1946. Pp. 415. $5.)

ORITZ, F. *Cuban counterpoint; tobacco and sugar.* Translated from the Spanish by Harriet de Onís. (New York: Knopf. Pp. 346. $4.)

TWITCHELL, K. S. *Saudi Arabia.* With an account of the development of its natural resources. (Princeton: Princeton Univ. Press. 1947. Pp. xiii, 192. $2.50.)

*The effects of strategic bombing on Japan's war economy.* (Washington: The United States Strategic Bombing Survey. 1946. Pp. ix, 244. 65¢.)

*Occupation of Japan—policy and progress.* Dept. of State, Far Eastern ser. 17, pub. 267. (Washington: Supt. Docs. 1947. Pp. iv, 173. 35¢.)

*The Palestine agricultural economy under war conditions.* Pub. by Audit Union of the Workers' Agricultural Cooperative Societies Ltd. (Tel-Aviv: Erez-Israel. 1946. Pp. 51.)

*Survey of the economic situation in Hungary.* (Budapest: Hungarian Commercial Bank of Pest. 1947. Pp. 34.)

*United States Strategic Bombing Survey, Japanese machine building industry, dates of survey, Oct. 1–Dec. 1, 1945.* (Washington: Supt. Docs. 1946. Pp. 42. 20¢.)

Contains valuable economic data, including an elaborate statistical appendix.

## Economic Systems; Post-War Planning

D'ANNA, F. C. *La ricostruzione economica e il suo finanziamento.* (Milan and Rome: Rizzoli. 1946. Pp. 174. 200 l.)

EZEKIEL, M., editor. *Towards world prosperity—through agricultural development and expansion.* (New York: Harper. 1947. Pp. xiv, 455. $3.)

HAWTREY, R. G. *Economic rebirth.* (London and New York: Longmans, Green. 1946. Pp. 161.)

MADISON, C. A. *Critics and crusaders. A century of American protest.* (New York: Henry Holt. 1947. Pp. xii, 572. $3.50.)

SHAH, K. T. *Priorities in planning: food, education, housing.* Pub. of National Planning Committee. (Bombay: Vora and Co. 1946. Pp. 43. Rs. 1–4.)

VAN TIL, W. *Economic roads for American democracy.* (New York: McGraw-Hill. Pp. 261. $1.80.)

A high school text presenting five schools of thought on political-economic policy.

ZURCHER, A. J. and PAGE, R., editors. *Postwar economic society.* Addresses delivered at the third series of conferences of the Institute on Postwar Reconstruction. (New York: Inst. on

Postwar Reconstruction, New York Univ. 1944. Pp. x, 306.)

Papers on cooperatives, labor, education, organized labor, veterans, cartels, overseas transport, agriculture and population.

*The American competitive enterprise system.* (Washington: Chamber of Commerce of U. S. 1946. Pp. 24. 10¢.)

## Statistical Methods; Econometrics; Economic Mathematics; Accounting

HOEL, P. G. *Introduction to mathematical statistics.* (New York: John Wiley and Sons; London: Chapman and Hall, 1947. Pp. x, 258. $3.50.)

MACFARLAND, G. A. and AYARS, R. D. *Accounting fundamentals.* 2nd ed. (New York: McGraw-Hill. 1947. Pp. xv, 759. $4.50.)

SNYDER, L. R. *Essential business mathematics.* (New York: McGraw-Hill. Pp. 446. $2.75.)

*Census publications subject guide, Jan.–Sept., 1946.* (Washington: Bur. of the Census. 1947. Pp. 206.)

*Statistical abstract of United States, 1946, 67th number.* Bur. of the Census (Washington: Supt. Docs. 1946. Pp. 1039. $2.25.)

## National Income and Product; Income Distribution; Consumption Statistics

KUZNETS, S. *National product since 1869.* (New York: Nat. Bur. of Econ. Research. 1946. Pp xvi, 239. $3.)

## Business Cycles and Fluctuations

BERKOVITS, E. and ATKINS, G. C. *The mechanics of full production and full employment—a solution to depressions.* (Chicago: Wilcox and Follett Co. 1946. Pp. 71. $2.)

DEWEY, E. R. and DAKIN, E. F. *Cycles; the science of prediction.* (New York: Holt. 1947. Pp. 267. $3.)

GRUBER, K. *Voraussetzungen der vollbeschäftigung.* (Vienna: Springer. 1946. Pp. 89. S.fr. 6; $1.40.)

HANSEN, A. H. *Economic policy and full employment.* (New York: McGraw-Hill. 1947. Pp. xii, 340.)

KUTHE, H. C. *Prices and business in 1947.* (New York: Business Bourse. 1946. Pp. viii, 271. $3.)

LERNER, A. P. and GRAHAM, F. D., editors. *Planning and paying for full employment.* (Princeton: Princeton Univ. Press. 1946. Pp. 222. $3.)

MILLS, F. C. *Price—quantity interactions in business cycles.* Twenty-fifth anniversary ser. no. 2. (New York: Nat. Bur. of Econ. Research. 1946. Pp. 160. $1.50.)

STERNBERG, F. The coming crisis. Translated from the German by Edward Fitzgerald. (New York: John Day. 1947. Pp. 288. $3.50.)

TERBORGH, G. *The bogey of economic maturity (a summary).* (Chicago: Machinery and Allied Products Inst. 1946. Pp. 66. 25¢.)

VOLPE, P. A. *The international financial and banking crisis, 1931–1933.* Stud. in econ., vol. 15. (Washington: Catholic Univ. of America Press. 1945. Pp. x, 123.)

WRIGHT, D. M. *The economics of disturbance.* (New York: Macmillan. 1947. Pp. x, 115. $2.50.)

*The course and control of inflation: a review of monetary experience in Europe after World War I.* League of Nations pub. II, A, 6. 1946. (New York: Columbia Univ. Press. 1946. Pp. 132. $1.25.)

*Konkurrenz und planwirtschaft.* Beiträge zur theoretischen nationalökonomie, Studiengruppe für theoretische nationalökonomie der Schweizerischen Gesellschaft für Statistik und Volkswirtschaft. Beiträgen von Amonn, Bieri, Böhl, Bongras, Dütschler, Jöhr, Küng, Walter. (Bern: Francke. 1946. Pp. viii, 240. sw.fr. 19.)

*Public investment and full employment.* Stud. and rept. n. s. no. 3. (Montreal: Internat. Lab. Office. 1946. Pp. ix, 348. 7s. 6d.)

## Public Finance; Fiscal Policy; Taxation

ALLISON, J. P. *Investors' tax planning—a guide to tax savings for the family group.* (Albany: M. Bender. 1946. Pp. 438. $5.)

BROOKS, R. P. *Financing government in Georgia, 1850–1944.* (Athens: Inst. for Study of Georgia Problems. 1946. Pp. 76. Gratis.)

GOLD, H. and HAIMOFF, L. *Fairchild's income tax guide for retailers.* 1947 ed. (New York: Fairchild Pub. Co. 1947. Pp. 127. $2.75.)

GOPAL, M. H. *The structure of a permanent excess profits tax.* (Bangalore: Bangalore Press. 1946. Pp. 51.)

GRIZIOTTI, B. *Primi elementi di scienza della finanze.* (Milan: Giuseppe Principato. 1946. Pp. 323.)

HAENSEL, P. *Financing World War II in the United States of America.* Openbare financiën, no. 4, 1946. (Alphen a/d Rijn: N. Samson N. V. 1946. Pp. 15.)

MONTGOMERY, R. H. and WYNN, J. O. *Montgomery's federal taxes— estates, trusts and gifts, 1946–47.* (New York: Ronald. Pp. x, 990. $10.)

MONTGOMERY, R. H., TAYLOR, C. B. and RICHARDSON, M. E. *Federal taxes—corporations and partnerships, 1946–47.* Vol. I, *Gross income and deductions;* Vol. II, *Returns and administration.* (New York: Ronald Press. 1947. Pp. xii, 1226; iv, 1217. 2 vols., $20.)

TOMPKINS, D. C., compiler. *State and local finance and taxation.* A bibliography of materials published 1941–1946. Postwar bibliog. no. 2. (Berkeley: Bur. of Public Admin., Univ. of California. 1946. Pp. 101. Mimeo. Apply.)

*Capital gains taxation: panel discussion.* (New York: Tax Institute, Inc. Pp. ix, 106.)

*Kentucky city finances.* Bull. of the Bur. of Bus. Research, College of Commerce, no. 12. (Lexington: Univ. of Kentucky Press. 1946. Pp. xii, 275.)

*Local government functions and finances.* Social and Economic Planning Council rept. no. 8 and summary. (Pretoria: Govt. Printer. 1945. Pp. 103, 13.)

*Presidential budget for the fiscal year 1948.* (New York: Nat. Assoc. of Manufacturers. 1947. Pp. 17. Mimeo. Apply.)

## Money and Banking; Short-Term Credit

ALHEINC, R. *La banque au service des échanges.* Essai de révision de nos systèmes monétaires. (Paris: Presses Univ. de France. 1946. Pp. 526. 400 fr.)

BOGEN, J. I., FOSTER, M. B., NADLER, M. and RODGERS, R. *Money and banking.* 3d. ed. (New York: Prentice-Hall. 1947. Pp. xvi. 634. $5.65; text ed., $4.25.)
Includes minor revisions to bring the materials up-to-date.

BROWALDH, E. *The state and the private banking system.* Suppl. to Svenska Handelsbanken's *Index.* (Stockholm: Haeggströms. 1946. Pp. 16.)

KENT, R. P. *Money and banking.* (New York: Rinehart. 1947. Pp. 715. $5.)

MATHIEU, H. *Physiologie de la monnaie—théorie nouvelle de l'économie pure.* (Paris: Presses Univ. de France. 1946. Pp. 406.)

PRATHER, C. L. *Money and banking*. 3d ed. (Chicago: Richard Irwin. 1946. Pp. xiii, 803. $5.)

SHAPIRO, E. *Credit union development in Wisconsin*. Stud. in hist., econ. and public law no. 525. (New York: Columbia Univ. Press. 1947. Pp. 174. $2.50.)

## International Trade, Finance and Economic Policy

BLINKEN, M. H. *Tariffs, jobs, and peace: the role of American trade policy in national well-being and world peace*. Memo. filed with the Committee for Reciprocity Information on behalf of the Woolen and Worsted Fabrics Group. (New York: Nat. Council of American Importers. 1947. Pp. 65, x.)

DEAN, V. M. *Russia's foreign economic policy. For. Pol. Report*, vol. XXII, no. 22, Feb. 1, 1947. (New York: For. Pol. Assoc. 1947. Pp. 15. 25¢.)

HEILPERIN, M. A. *The trade of nations*. (New York: Alfred A. Knopf. 1947. Pp. xix, 234, vii. $3.)

DE HUSZAR, G. B., editor. *Persistent international issues*. (New York: Harper. 1947. Pp. vii, 262. $3.)

Informative articles by very competent authors on relief and rehabilitation, displaced persons, health, food and agriculture, transportation, industry and trade, money and finance, education, and politics.

HUTCHESON, H. H. *Impact of U. S. economy on world trade. For. Pol. Report*, vol. XXII, no. 19, Dec. 15, 1946. (New York: For. Pol. Assoc. 1946. Pp. 11. 25¢.)

LEVI, W. *American-Australian relations*. (Minneapolis: Univ. of Minnesota Press. London: Oxford Univ. Press. 1947. Pp. 184. $2.75.)

A historical record with a chapter on current economic relations.

PATTERSON, E. M. *An introduction to world economics*. (New York: Macmillan. 1947. Pp. xv, 704. $5.)

WILSON, C. M. *Empire in green and gold; the story of the American banana trade*. (New York: Holt. 1947. Pp. 303. $3.50.)

ZURCHER, A. J. and PAGE, R., editors. *America's place in the world economy*. Addresses delivered at the fourth series of conferences of the Institute on Postwar Reconstruction. (New York: Inst. on Postwar Reconstruction, New York Univ. 1945. Pp. xi, 250.

Papers by H. D. Gideonse, J. B. Condliffe, W. D. White, Herbert Feis, Redvers Opie, W. Y. Elliott, F. D. Graham and others.

*American wool import policy*. Dept. of State pub. 2708, comm. pol. ser. 97. Reprint from *Dept. of State Bulletin*, Nov. 3, 1946. (Washington: Supt. Docs. 1946. Pp. 19.)

*Charter for the International Trade Organization of the United Nations*. Articles drafted at London meeting, Oct. 15–Nov. 26, 1946, by the Preparatory Committee of the International Conference on Trade and Employment, with the original American drafts of articles on which the Preparatory Committee took no specific action. Dept. of State pub. 2728, commercial pol. ser. 98. (Washington: Supt. Docs. 1947. Pp. xiv, 68. 20¢.)

*Foreign commerce and navigation of the United States for the calendar year 1943*. Vol. I, *Import and export statistics;* Vol. 1, suppl., *Import and export statistics;* Vol. 2, *Export transport statistics*. (Washington: Supt. Docs. 1946. Pp. 1046; 363; 452. $4; $1.75; $2.)

*Inter-allied reparation agency—first report of the secretary general for the year 1946*. (Brussels: Inter-Allied Reparation Agency. 1947. Pp. 69.)

*International agencies in which the United States participates*. Dept. of State pub. 2699. (Washington: Supt. Docs. 1946. Pp. vi, 322. 65¢.)

*The international control of atomic energy: scientific information transmitted to the United Nations Atomic Energy Commission June 14–Oct. 14, 1946*. Dept. of State pub. 2661, U. S. and U. N. rept. ser. 5. (Washington: Supt. Docs. 1946. Pp. iv, 195. 30¢.)

*International control of atomic energy—growth of a policy.* An informal summary record of the official declarations and proposals relating to the international control of atomic energy made between Aug. 6 and Oct. 15, 1946. Dept. of State pub. 2702. (Washington: Supt. Docs. 1946. Pp. xvii, 281. 45¢.)

*Participation of the United States government in international conferences, July 1, 1941–June 30, 1945.* Dept. of State pub. 2665, Conf. ser. 89. (Washington: Supt. Docs. 1947. Pp. 232.)

*Les plans monétaires internationaux.* Pt. 1, *Présentation et situation des plans;* Pt. 2, *Situation des plans;* Pt. 3, *La conférence de Bretton Woods.* (Paris: Inst. de Sci. Écon. Appliquée. 1944, 1945, 1945. Pp. 309, 279, 216.)

*Preliminary proposals for an International Trade Organization.* Dept. of State pub. 2756, commercial pol. ser. 99. (Washington: Supt. Docs. 1947. Pp. 24. 15¢.)

*Réglementation des paiements avec l'étranger.* 7th suppl. (Basle: Bank for Internat. Settlements. 1946. Pp. 127. Sw. fr. 6.50.)
Available also in German.

*Réglementation du commerce de l'or et des devises en France.* (Basle: Bank for Internat. Settlements. 1946. Pp. 450. Sw. fr. 26.)

*Treaties of peace with Italy, Bulgaria, Hungary, Roumania and Finland.* Dept. of State pub. 2743, European ser. 21. (Washington: Supt. Docs. 1947. Pp. 240. $1.)

*The Treaty of Versailles and after.* Annotations of the text of the treaty. Dept. of State pub. 2724, conf. ser. 92. (Washington: Supt. Docs. 1947. Pp. xiv, 1018.)

*United States and Italy, 1936–1946: documentary record.* Dept. of State pub. 2669, European ser. 17. (Washington: Supt. Docs. 1946. Pp. x, 236. 65¢.)

*The United States and the United Nations: report by the President on the activities of the United Nations and the participation of the United States therein for the calendar year 1946, submitted to Congress pursuant to Sec. 4 of the United Nations Participation Act of 1945, 79th Cong., 1st sess.* Dept. of State pub. 2735. (Washington: Supt. Docs. 1947. Pp. 221. 45¢.)

*World trade center in San Francisco.* Prepared by T. B. Spitzer. Report of the Board of State Harbor Commissioners to the legislature pursuant to Assembly Concurrent Resolution no. 22, filed with the Secretary of State, Feb. 4, 1946. (Sacramento: State of California. 1946. Pp. 200.)

## Business Finance; Insurance; Investments; Securities Markets

FREHNER, E. *Die reserven in der unternehmung.* Mitteilungen aus dem handelswissenschaftlichen Seminar der Universität Zurich. Neue Folge 81. (Zurich: Schultess & Co. 1946. Pp. xvi, 151. Fr. 7.)

JACOBY, N. H. and SAULNIER, R. J. *Business finance and banking.* Financial research program stud. in bus. financing. (New York: Nat. Bur. of Econ. Research. 1947. Pp. xviii, 241. $3.50.)

LUSK, H. F. *Business law; principles and cases.* 3d ed. (Chicago: Richard D. Irwin. 1946. Pp. 992. $5.)

MCMICHAEL, S. L. *Leases: percentage, short and long term.* 4th ed. (New York: Prentice-Hall. 1947. Pp. 585. $5.)

PRIME, J. H. *Investment analysis.* (New York: Prentice-Hall. 1947. Pp. xiii, 442. $4.65.)

*Life insurance fact book, 1946.* (New York: Inst. of Life Insurance. 1946. Pp. 66. Apply.)

*Report on the study and investigation of the work, activities, personnel and functions of protective and reorganization committees, pursuant to section 211 of the Securities Exchange Act of 1934, index digest.* Securities and Exchange Commission. (Washington: Supt. Docs. 1946. Pp. 531. 50¢.)

## Public Control of Business; Public Administration; National Defense and War

BAIN, J. S. *The economics of the Pacific Coast petroleum industry.* Pt. 3: *Public policy toward competition and pricing.* Pub. of Bur. of Bus. and Econ. Research. (Berkeley: Univ. of California Press. 1947. Pp. xi, 130. $3.)

BERTOLINO, A. *Economia di guerra.* (Florence: La Nuova Italia. 1946. Pp. 135. 2001.)

DENNIS, E. *The people against the trusts.* (New York: New Century Publishers. 1946. Pp. 64. 10¢.)

DUDLEY, W. E. *The compass.* (Chicago: Commercial Pub. Co. 1947. Pp. 373.)

It appears that if America would stop importing agricultural and mineral products, millions of people would be put to work and the resulting activation of the circulation of money would carry the national income to quite unheard-of levels. Strange as it may seem, the foreigners would benefit too. Of course, the author says, politicians must be got rid of before such commonsense could prevail.

GOPAL, M. H. *Basis of public salaries.* (Mysore City: Mysore Pub. House. 1946. Pp. 140. Rs. 3.)

GRAHAM, F. D. and SCANLON, J. J. *Economic preparation and conduct of war under the nazi regime.* (Washington: Historical Div. War Dept. Special Staff. 1946. Pp. 53, mimeo.)

KATZ, W. and others. *Patents and economic progress.* A radio discussion. Transcript no. 460. (Chicago: Univ. of Chicago Round Table. 1947. Pp. 21. 10c.)

RAYMOND, F. I. *The limitist.* (New York: Norton, 1947. Pp. 166. $2.)

A simply written program for getting rid of capitalist concentration and providing business opportunities for individuals by prohibiting multiple ownership of large manufacturing plants and distributive outlets and limiting the size of agricultural enterprises.

*General maximum price regulation.* Bur. Lab. Stat. bull. 879. (Washington: Supt. Docs. 1946. Pp. 57. 15¢.)

*The United States at war—development and administration of the war program by the federal government.* Bur. of the Budget, Hist. rept. on war admin., no. 1. (Washington: Supt. Docs. 1946. Pp. xv, 555. $1.)

*United States* versus *economic concentration and monopoly, an investigation of the effectiveness of the government efforts to combat economic concentration, staff report to the monopoly subcommittee of the House Committee on Small Business, pursuant to H. Res. 64, 79th Cong.* (Washington: Supt. Docs. 1946. Pp. 432. 75¢.)

## Industrial Organization; Price and Production Policies; Business Methods

HOSLETT, S. D., editor. *Human factors in management.* (Parkville, Mo.: Park College Press. 1946. Pp. 322. $4.)

MILLER, R. W. *The corporation—a brotherhood of service.* (Washington, Ottawa, and San Francisco: World Trade Relations, Ltd. 1947. Pp. 19. $1.)

NEWMAN, W. H. *Business policies and management.* (Cincinnati: South Western Co. 1947. Pp. viii, 824. $5.)

SHARP, S. L. *Nationalization of key industries in eastern Europe.* Appendix contains nationalization decrees of Czechoslovakia and Poland. (Washington: Foundation for Foreign Affairs. 1946. Pp. 81. 25¢.)

## Marketing and Domestic Trade

ENGLE, N. H., editor. *Marketing in the West.* (New York: Ronald Press. 1946. Pp. 275. $3.50.)

PHILLIPS, C. F. editor. *Marketing by manufacturers.* (Chicago: Richard D. Irwin. 1946. Pp. ix, 639. $5.)

Prepared as a practical aid to manufacturers as well as for textbook use. Contains sections on marketing policies and research, preparing products for the market, distribution channels, pricing and advertising, sales organization, warehousing and distributing, financing and control, exporting and government controls and aid. Contributors: R. S. Alexander, R. T. Browne, R. R. Butler, D. J. Duncan, J. H. Frederick, H. W. Huegy, L. C. Lockley, C. H. Landage, H. R. Tosdal.

*Report of the eighteenth Boston conference on distribution, Oct., 1946.* (Boston: Boston Chamber of Commerce Retail Trade Board. 1946. Pp. 111. $3.75.)

## Mining; Manufacturing; Construction

HOADLEY, W. E. JR., BAUGHMAN, E., and MARS, W. P. *A financial and economic survey of the meat packing industry.* (Chicago: Fed. Reserve Bank of Chicago. 1946. Pp. viii, 48.)

MCCLELLAN, G. S. *Labor's program for British industry. For. Pol. Report,* vol. XXII, no. 21, Jan. 15, 1947. (New York: For. Pol. Assoc. 1947. Pp. 11. 25¢.)

ROSE, H. W. *The rayon and synthetic fiber industry of Japan.* Supplementary material gathered for the United States Department of State and War Department Textile Mission to Japan, January–March, 1946. (New York: Textile Research Inst. 1946. Pp. 346. $6.)

*Industrial opportunities in the cotton south.* Prepared for Pace Committee by Indus. Div., Office of Domestic Commerce. (Washington: Dept. of Commerce. 1946. Pp. 72.)

*Watches.* U. S. Tariff Commission war changes in industry, ser. rept. no. 20. (Washington: Supt. Docs. 1946. Pp. 179.)

## Transportation; Communication; Public Utilities

DAGGETT, S. and CARTER, J. P. *The structure of transcontinental railroad rates.* (Berkeley: Bur. of Bus. and Econ. Research, Univ. of California. 1947. Pp. viii, 165. $4.)

Presents a wide sampling of specific rates and an analysis of the general pattern of rates, discusses the rate-making process, and uncovers incongruities and economic distortions.

DAVIES, E. *Nationalization of transport.* Lab. discussion ser. no. 10. (London: Labour Pub. Dept., Transport House. 1947. 2 d.)

GOULD, J. M. *Output and productivity in the electric and gas utilities.* Pub. no. 47. (New York: Nat. Bur. Econ. Research. 1946. Pp. xii, 189. $3.)

New measures of output, employment, food consumption and investment, and the relation of output to the use of the productive factors.

JOHNSON, E. R. *Transport facilities, services and policies.* (New York: Appleton-Century. 1947. Pp. ix, 409. $3.50.)

MANCE, O. *International Air Transport.* (New York: Royal Inst. of Internat. Affairs. 1943. Pp. x, 117. $1.)

MANCE, O. *International Sea Transport.* (New York: Royal Inst. of Internat. Affairs. 1945. Pp. xii, 198. $3.)

WHITE, J. L. *Analysis of railroad operations.* 2d ed. (New York: Simmons-Boardman Pub. Corp. 1946. Pp. xvii, 306. $5.)

*Les chemins de fer en U. R. S. S.* Étud. et doc. sér. A 1 U.R.S.S. 1 de l'Inst. Nat. de Stat. et Études Écon. (Paris: Presses Univ. de France. 1946. Pp. 77.)

*A free and responsible press.* A general report on mass communication: newspapers, radio, motion pictures, magazines, and books by the Commission on Freedom of the Press. Foreword by Robert M. Hutchins. (Chicago: Chicago Univ. Press. 1947. Pp. xii, 139. $2.)

*Government-owned pipe lines: report of the War Assets Administration to the Congress, Dec. 18, 1946.* (Washington: Supt. Docs. 1946. Pp. 26.)

*Interstate Commerce Commission 60th annual report, November 1, 1946.* (Washington: Supt. Docs. 1946. Pp. 174. $1.)

*The meaning and significance of the out-of-pocket, constant, and joint costs in motor carrier operation.* Statement no. 4614. (Washington: Interstate Commerce Commission, Bur. of Transport Econ. and Stat. 1946. Pp. 32, mimeo.)

*Motor carrier facilities—war use and postwar needs.* Statement no. 4612. (Washington: Interstate Commerce Commission, Bur. of Transport Econ. and Stat. 1946. Pp. 95, mimeo.)

*Opinions and decisions of the Federal Power Commission, Oct. 1, 1943–Dec. 31, 1945.* Vol. 4, with appendix of selected orders in the nature of opinions. (Washington: Supt. Docs. 1946. Pp. 1,197. $2.50.)

*Opportunities for establishing new businesses in aviation.* Dept. of Commerce, Indus. ser. no. 63. (Washington: Supt. Docs. 1946. Pp. vi, 236. 40¢.)

*Per diem costs of car ownership and per diem charges for freight cars and their calculation.* Statement no. 465. (Washington: Interstate Commerce Commission. Bur. of Transport Econ. and Stat. 1946. Pp. 53, mimeo.)

*Postwar earnings of Class I railroads.* Statement no. 467. (Washington: Interstate Commerce Commission, Bur. of Transport Econ. and Stat. 1946. Pp. 104, mimeo.)

*Postwar outlook for American shipping.* Maritime Commission. (Washington: Supt. Docs. 1946. Pp. 128. 20¢.)

*Prospects and problems in aviation—analyzed by twelve national authorities.* Papers presented at the Chicago Forum on Aviation, spring, 1945. (Chicago: Chicago Assoc. of Commerce. 1945. Pp. v, 212.)

*Regional shifts in the postwar traffic of class I railways.* Vols. I and II. Interstate Commerce Commission, Bur. of Transport Econ. and Stat. (Washington: Supt. Docs. 1946. Pp. 261; 148. Mimeo.)

*Report on the Columbia River power system, 1946.* Dept. of the Interior. (Portland: Bonneville Power Admin. 1946. Pp. 52.)

*The transportation of fresh apples.* Rail waybill stud., 1939 ser. (Washington: Interstate Commerce Commission, Bur. of Transport Econ. and Statistics. 1946. Pp. 154, mimeo.)

*Weight density and value as factors in freight classification.* Statement no. 469. (Washington: Interstate Commerce Commission. Bur. of Transport Econ. and Stat. 1946. Pp. 38, mimeo.)

## Agriculture; Forestry; Fisheries

Bolles, B. *World nutrition and agrarian stability—proposals for a food board. For. Pol. Report,* vol. XXII, No. 18, Dec. 1, 1946. (New York: For. Pol. Assoc. 1946. Pp. 11. 25¢.)

Medici, G. *L'Agricoltura e la riforma agraria.* (Milan and Rome: Rizzoli. Pp. 145. 200 l.)

Pearson, F. A. and Vial, E. E. *Prices of dairy products.* (Ithaca: Cornell Univ. Press. 1946. Pp. x, 154. $3.)

A statistical study of prices in relation to monthly production, stocks and other market factors for twelve livestock products in the period 1920–41.

Tannehill, I. R. *Drought, its causes and effects.* (Princeton: Princeton Univ. Press. 1947. Pp. xii, 264. $3.)

*A century of farming in Iowa, 1846–1946.* By members of the staff of Iowa State College and Iowa Agricultural Experiment Station. (Ames: Iowa State Collegiate Press. 1946. Pp. xiv, 357. $5.)

*Agrarian reforms in western countries.* Pub. of the Indian Soc. of Agric. Econ. (Bombay: Vora and Co. 1946. Pp. 122. 3 Rs.)

*Dare farmers risk abundance?* Planning pamph. no. 56. (Washington: Nat. Planning Assoc. 1947. Pp. v, 52, 25¢.)

*Land tenures in India*. Pub. of the Indian Soc. of Agric. Econ. (Bombay: Vora and Co. 1946. Pp. 90. 2 Rs.)

*Report of the FAO preparatory commission on world food proposals, Washington, D. C., Oct. 28, 1946–Jan. 24, 1947*. (Washington: Food and Agric. Organization of the United Nations. 1947. Pp. x, 84.)

*Report of the Secretary of Agriculture, 1946*. (Washington: Supt. Docs. 1946. Pp. 178. 30¢.)

## Economic Geography; Regional Planning; Urban Land; Housing

Abrams, C. *A housing program for America*. (New York: League for Indus. Democracy. 1947. Pp. 32. 25¢.)

Atkinson, H. G. and Frailey, L. E. *Fundamentals of real estate practice*. (New York: Prentice-Hall. 1946. Pp. 462. $7.50; bxd., $5.60.)

Firey, W. *Land use in central Boston*. Harvard soc. stud., vol. IV. (Cambridge: Harvard Univ. Press. 1947. Pp. xv, 367. $5.)

An application of systematic sociological theory to the analysis of land use, with special reference to the influence of cultural values and community sentiments in conditioning land use patterns.

Friedman, M. and others. *How can we get housing?* A radio discussion; including a special suppl. on housing in the United States. Transcript no. 462. (Chicago: Univ. of Chicago Round Table. Pp. 27. 10¢.)

Glaisyer, J., Brennan, T., Ritchie, W. and Florence, P. S. *County town—a civic survey for the planning of Worcester*. (Forest Hills, N. Y.: Transatlantic Arts, Inc. 1946. $6.30.)

Greer, G. *Your city tomorrow*. (New York: Macmillan. 1947. Pp. xiii, 210. $2.50.)

*Columbia Basin Reclamation Project, South Irrigation District appraisals*. Reclamation Bureau. (Washington: Supt. Docs. 1946. Pp. 363. 55¢.

*The economy of the Cincinnati metropolitan area*. (Cincinnati: City Planning Commission of Cincinnati. 1946. Pp. xv, 126. $2.50.)

*Housing. Law and Contemp. Probs.*, vol. XII, no. 1. (Durham: School of Law, Duke Univ. 1947. Pp. 208. $1.)

A valuable collection of articles on many aspects of the housing problem—economic, legal and technical.

*Housing after World War I, will history repeat itself?* Nat. Housing Agency. Nat. Housing bull. 4. (Washington: Supt. Docs. 1945. Pp. 59. 15¢.)

*Housing in Front Royal, Virginia—facts and trends*. (Washington: American Univ. 1946. Pp. 93, mimeo.)

*Land assembly for urban redevelopment*. Nat. Housing Agency, Nat. Housing bull. 3. (Washington: Supt. Docs. 1945. Pp. 39. 10¢.)

*The TVA program*. A bibliography of selected readings. (Knoxville: Tennessee Valley Authority. 1946. Pp. 29, mimeo. Apply.)

## Labor and Industrial Relations

Baker, H. and True, J. M. *The operation of job evaluation plans—a survey of experience*. (Princeton: Princeton Univ. Indus. Relations Section. 1947. Pp. 111. $1.50.)

Foner, P. S. *History of the labor movement in the United States: from colonial times to the founding of the American Federation of Labor*. (New York: Internat. Pubs. 1947. Pp. 576. $4.50.)

Greenman, R. L. and E. B. *Getting along with unions.* (New York: Harper. 1947. Pp. ix, 158. $2.50.)

Iserman, T. R. *Industrial peace and the Wagner Act.* Foreword by L. Wolman. (New York: McGraw-Hill. 1947. Pp. 91. $1.50.)

Kaplan, A. D. H., DuBrul, S. M. and Shiskin, B. *The guaranteed annual wage.* Amer. econ. pol. ser. (New Wilmington, Pa.: Econ. and Bus. Found. 1946. Pp. 50. 75¢.)

Metz, H. W. and Jacobstein, M. *A national labor policy.* Washington: Brookings Institution. 1947. Pp. x, 164.)

Northcott, C. H. *Personnel management: its scope and practice.* (New York: Pitman. 1947. Pp. 339. $3.50.)

Picard, R. *La leçon des grèves américaines, 1945–1946.* (Paris: Spid. 1946. Pp. 177. 120 fr.)

Silverberg, L. G. *A guide to the National Labor Relations Act: procedures and practices.* Bull no. 81. (Washington: U. S. Dept. of Labor. 1946. Pp. vi, 58. Gratis.)

Simkin, W. E. and Kennedy, V. D. *Arbitration of grievances.* Bull. no. 82. (Washington: U. S. Dept. of Labor. 1946. Pp. 39. Gratis.)

Slichter, S. H. *The challenge of industrial relations—trade unions, management, and the public interest.* (Ithaca: Cornell Univ. Press. 1947. Pp. vii, 196. $2.50.)

Snider, J. L. *The guarantee of work and wages.* (Boston: Harvard Univ. Grad. School of Bus. Admin. 1947. Pp. xi, 191. $2.75.)

Stewart, B. M. and Couper, W. J. *Reconversion in industrial relations.* Indus. Relations monog. no. 13. (New York: Indus. Relations Counselors. 1946. Pp. 78. $1.75.)

Ware, C. F. *Labor education in universities—a study of university programs.* (New York: American Labor Education Service. 1946. Pp. 138. $1.)

*The administration, under collective bargaining, of welfare plans based on employer contributions.* Research and stat. rept. no. 1. (Washington: Nat. Wage Stabilization Board. 1946. Pp. 44.)

*Les caractères contemporains du salaire.* Pub. 1 de ser. Pragma de l'Inst. de Sci. Econ. Appliquée. (Paris: Presses Univ. de France. 1946. Pp. 160. 240 fr.)

*Chart book of employment and payrolls in Canadian industries: employment 1939–Aug. 1, 1946; payrolls 1941–Aug. 1, 1946.* Compiled by Econ. Research Branch. (Ottawa: Dept. of Reconstruction and Supply. 1946. Pp. 57.)

*Court decisions relating to the National Labor Relations Act, June 1, 1943 to Jan. 1, 1946.* (Washington: Supt. Docs. 1946. Pp. 1,263. $2.50.)

*Decisions and orders of the National Labor Relations Board.* Vol. 66, Feb. 28–Apr. 3, 1946; Vol. 67, Apr. 4–May 15, 1946. (Washington: Supt. Docs. 1946. Pp. 1,491; 1,447. $2.75, each.)

*Employment service organization.* Internat. Lab. Conf., 30th sess., 1947. Rept. V (I). (Montreal: Internat. Lab. Office. 1946. Pp. 350.)

*Enquête sur l'artisinat français.* (Paris: Inst. de Sci. Écon. Appliquée. 1946. Pp. 136.)

*Labor-management disputes, subsequent to August 17, 1945, involving possession of properties by the federal government.* Research and stat. rept. no. 2. (Washington: Nat. Wage Stabilization Board. 1946. Pp. 98. Mimeo.)

*Proceedings of the 28th session of the International Labour Conference, Seattle, 1946.* (Montreal: Internat. Lab. Office. 1946. Pp. xxviii, 411.)

*Reconciling labor and management philosophies.* Personnel ser. no. 98. (New York: Am. Management Assoc. 1946. Pp. 32. 75c.)

*Record of Proceedings.* Third Conf. of American States Members of the Internat. Lab. Organization, Mexico City, Apr., 1946. (Montreal: Internat. Lab. Office. 1946. Pp. 308.)

*Relationships between supervisory management and shop stewards.* 6th public forum on "Human problems in business and industry." (New Wilmington, Pa.: Econ. and Bus. Found. 1946. Pp. 66. 75c.)

*La rémunération du travail et la politique du salaire.* Pt. 1, *Les caractères contemporains de la rémunération du travail* (1945. Pp. 176.); Pt. 2, *Salaire et rendement* (1945. Pp. 170), Suppl., *Budgets types, salaires minima par Bozena Zabiecka* (1945. Pp. 56); Pt. 3, *Salaire et consommation* (1946. Pp. 129). *La participations des salariés aux responsabilités et aux résultats de l'oeuvre:* (1) *Specificite du probleme* (1945. Pp. 125); (2) *Lignes de recherche d'une solution* (1946. Pp. 126); Suppl., *L'influence sur le salaire des troubles survenus dans la fonctionnement de l'entreprise; salaires et greves* (1945. Pp. 75.). (Paris: Inst. de Sci. Écon. Appliquée.)

*Report of the Department of Labour for the fiscal year ending March 31, 1946.* (Ottawa: Cloutier. 1947. Pp. 116. 25c.)

*Resumé of the proceedings of the thirteenth national conference on labor legislation, Dec. 2, 3 and 4, 1946.* Dept. of Labor bull. no. 85. (Washington: Supt. Docs. 1946. p. 42. Gratis.)

*Salaire et rendement.* Pub. 2d ser. Pragma de l'Inst. de Sci. Econ. Appliquée. (Paris: Presses Univ. de France. 1946. Pp. 234. 300 fr.)

*Work stoppages caused by labor-management disputes in 1945.* Bur. Labor Stat. bull. 878. (Washington: Supt. Docs. 1946. Pp. 41. 10c.)

## Social Insurance; Relief; Pensions; Public Welfare

Kurtz, R. H., editor. *Social work year book, 1947.* 9th issue. (New York: Russell Sage Foundation. 1947. Pp. 714. $3.50.)

A description of organized activities in social work and in related fields.

Meriam, L. *Relief and social security (summary).* (Washington: Brookings Inst. 1946. Pp. 42. 50c.)

Phelps, H. A. *Contemporary social problems.* 3d ed. (New York: Prentice-Hall. 1947. Pp. xiv, 845.)

*Characteristics of state plans, old-age assistance, aid to the blind, aid to dependent children.* Social Security Admin. pub. 62. (Washington: Supt. Docs. 1946. Pp. 103. 35c.)

*International health conference, June 19–22, 1946.* Rept. of the U. S. delegation, including the final act and related documents. Dept. of State pub. 2703, conf. ser. 91. (Washington: Supt. Docs. 1947. Pp. 145. 35c.)

*Medicine in the changing order.* Report of the New York Academy of Medicine Committee on Medicine and the Changing Order. (New York: The Commonwealth Fund. 1947. Pp. xviii, 240. $2.)

*La sécurité sociale.* Pt. 1, *La notion de sécurité sociale: le plan Beveridge* (1945. Pp. 172.); Pt. 2, *Les plans anglo-saxons de sécurité: les plans des États-Unis, du Canada, de la Nouvelle Zélande, de l'Australie, de l'Union Sud-Africaine* (1945. Pp. 175.); Pt. 3, *Organisation médicale et sécurité sociale en Angleterre et en France* (1946. Pp. 133.) (Paris: Inst. de Sci. Écon. Appliquée.)

*Temporary disability insurance coordinated with unemployment insurance.* (Washington: Soc. Security Admin. 1947. Pp. 32, mimeo.)

## Consumption; Cooperation

Bogardus, E. S. *History of cooperation.* Outlines for discussion groups. (New York: Cooperative League. 1946. Pp. 72. 25c.)

## Population; Migration; Vital Statistics

Davie, M. R. *Refugees in America.* Report of the Committee for the Study of Recent Immigration from Europe. (New York: Harper. 1947. Pp. xxi, 453. $4.50.)

*Les minorités ethniques en Europe centrale et Balkanique.* Étud. et doc. sér. B 1 de l'Inst. Nat. de Stat. et Études Écon. (Paris: Presses Univ. de France. 1946. Pp. 93.)

## Unclassified Items

EWING, A. C. *The individual, the state, and world government.* (New York: Macmillan. 1947. Pp. viii, 322. $4.)

LUNDBERG, G. A. *Can science save us?* (New York: Longmans, Green. 1947. Pp. 122. Paper, $1; cloth, $1.75.)

MACIVER, R. M. *The web of government.* (New York: Macmillan. 1947. Pp. ix, 498. $4.50.)

*National Institute of Economic and Social Research annual report, 1945–46.* (London: Nat. Inst. Econ. and Soc. Research. 1946. Pp. 24.)

*Social implications of modern science. The Annals,* vol. 249, Jan. 1947. (Philadelphia: Am. Acad. of Pol. and Soc. Sci. 1947. Pp. 169. Paper, $2; cloth, $2.50.)

# PERIODICALS

## Economic Theory; General Works

ANDERSON, K. L. *Terms of sale*. Jour. Marketing, Jan., 1947. Pp. 8.

BETTLEHEIM, C. *Lois économiques et valeur d'usage*. La Revue Internat., Dec., 1946. Pp. 9.

COASE, R. H. *Monopoly pricing with interrelated costs and demands*. Economica, Nov., 1946. Pp. 17.

DILLARD, D. *The pragmatic basis of Keynes's political economy*. Jour. Econ. Hist., Nov., 1946. Pp. 32.

DOMAR, E. D. *Expansion and employment*. Am. Econ. Rev., Mar., 1947. Pp. 12.

GOLDENWEISER, E. A. *The economist and the state*. Am. Econ. Rev., Mar., 1947. Pp. 12.

HILDRETH, C. G. *Note on Marximization criteria*. Quart. Jour. Econ., Nov., 1946. Pp. 9.

LEONTIEF, W. *Wages, profit and prices*. Quart. Jour. Econ., Nov., 1946. Pp. 14.

LESTER, R. A. *Marginalism and labor markets. Rejoinder to an antimarginalist*, by F. Machlup. *Professor Lester and the marginalists*, by G. J. Stigler. Am. Econ. Rev., Mar., 1947. Pp. 13; 6; 3.

LEWIS, W. A. *Fixed costs*. Economica, Nov. 1946. Pp. 28.

PATEL, S. J. *Marxism and recent economic thought*. Sci. and Soc., Winter, 1947. Pp. 13.

SALIN, E. *Wirtschaft und wirtschaftslehre nach zwei weltkriegen*. Kyklos, Vol. 1, 1947. Pp. 31.

SALOMON, A. *Hugo Grotius and the social sciences*. Pol. Sci. Quart., Mar., 1947. Pp. 20.

WEINTRAUB, S. *Monopoly pricing and unemployment*. Quart. Jour. Econ., Nov., 1946. Pp. 17.

## Economic History

CLOUGH, S. B. *The crisis in French economy at the beginning of the revolution*. Jour. Econ. Hist., Nov., 1946. Pp. 6.

COCHRAN, T. C. *A plan for the study of business thinking*. Pol. Sci. Quart., Mar., 1947. Pp. 9.

MORGAN, C. S. *Problems in the appraisal of the railroad land grants*. Mississippi Valley Hist. Rev., Dec., 1946. Pp. 12.

ROBBINS, G. W. *Notions about the origins of trading*. Jour. Marketing, Jan., 1946. Pp. 9.

ROBERTSON, H. M. *Economic historians and their colleagues*. So. African Jour. Econ., Sept., 1946. Pp. 10.

ROOVER, R. DE *The Medici bank: financial and commercial operations*. Jour. Econ. Hist., Nov., 1946. Pp. 20.

## National Economies

GERTSOVICH, G. *The economic reconstruction of Germany*. Mirovoye Khozyaistvo i Mirovaya Politika, no. 9, Sept., 1946.

HANSON, E. P. *An economic survey of the western province of Liberia*. Geograph. Rev., Jan., 1947. Pp. 17.

MURRAY, K. A. H. *Some regional economic problems of the Middle East*. Internat. Affairs, Jan., 1947. Pp. 9.

OATMAN, M. E. *Nationalization program in Czechoslovakia*. Dept. of State Bull., Dec., 1946. Pp. 7.

PUKHLOV, N. *Economic rebirth of democratic Poland*. Planovoye Khozyaistvo, no. 4, July–Aug., 1946.

SPIEGEL, H. W. *The prospects of business in Brazil*. Jour. Bus. Univ. Chicago, Jan., 1947. Pp. 11.

## Economic Systems; Post-War Planning

BERNSTEIN, S. *Trends in French socialism 1789–1871*. Sci. and Soc., Winter, 1947. Pp. 10.

EVENTOV, L. *Contradictions in the economics of capitalist countries after the war*. Planovoye Khozyaistvo, no. 5, Sept.–Oct., 1946.

KOSYACHENKO, G. *Preventing disproportions in the national economy—one of the most important tasks of planning*. Planovoye Khozyaistvo, no. 4, July–Aug., 1946.

SMITH, B. B. *The forces patterning tomorrow's economic life*. Dun's Rev., Feb., 1947. Pp. 5.

*Planning in the postwar period and the new structure of the Gosplan*. Planovoye Khozyaistvo, no. 5, Sept.–Oct., 1946.

## Statistical Methods; Econometrics; Economic Mathematics; Accounting

BRAY, F. S. *An accountant's comments on the subjective theory of value and accounting cost*. Economica, Nov., 1946. Pp. 5.

DOHR, J. L. *Price and cost*. Jour. Accountancy, Jan., 1947. Pp. 5.

FRÉCHET, M. *Anciens et nouveaux indics de corrélation. Leur application au calcul des retards économiques*. Econometrica, Jan., 1947. Pp. 30.

MAY, K. *Technological change and aggregation*. Econometrica, Jan., 1947. Pp. 13.

NOYES, C. R. *A consolidated balance-sheet for a democracy*. Jour. Accountancy, Feb., 1947. Pp. 13.

TINTNER, G. *Some applications of multivariate analysis of economic data*. Jour. Am. Stat. Assoc., Dec., 1946. Pp. 29.

## National Income and Product; Income Distribution; Consumption Statistics

CLARK, E. and FISHMAN, L. *Appraisal of methods for estimating the size distribution of a given aggregate income*. Rev. Econ. Stat., Feb., 1947. Pp. 4.

COPELAND, M. A. *Determinants of distribution of income*. Am. Econ. Rev., Mar., 1947. Pp. 20.

GOLDENBERG, L. *Saving in a state with a stationary population*. Quart. Jour. Econ., Nov., 1946. Pp. 26.

HITCH, LIVINGSTON, GEORGE and LANDRY, SMITHIES, and HUBBARD. *The American economy in transition*. Rev. Econ. Stat., Feb., 1947. Pp. 23.

KATONA, and LIKERT, BEAN, FRIEND, BENNION, and BRADY. *Five views on the consumption function*. Rev. Econ. Stat., Nov., 1946. Pp. 29.

LUBELL, H. *Effects of income redistribution on consumer's expenditures*. Am. Econ. Rev., Mar., 1947. Pp. 13.

NOYES, C. R. *The prospect for economic growth*. Am. Econ. Rev., Mar., 1947. Pp. 21.

URQUHART, M. C. *Forecasting economic conditions*. Canadian Banker, Feb., 1947. Pp. 9.

VANCE, L. L. *The interpretation of consumer dis-saving*. Jour. Marketing, Jan., 1947. Pp. 7.

WYLER, J. *The national income of Soviet Russia*. Soc. Research, Dec., 1946. Pp. 18.

*Full employment patterns, 1950*. Mo. Lab. Rev., Feb., 1947. Pp. 28.

## Business Cycles and Fluctuations

DOBRETSBERGER, J. *A critical review of the discussions on full employment*. Kyklos. Vol. 1, 1947. Pp. 7.

FELLNER, W. J. *Postscript on war inflation*. Am. Econ. Rev., Mar., 1947. Pp. 16.

FISHER, A. G. B. *Less stability: more stability*. Kyklos, Vol. 1, 1947. Pp. 18.

HARDY, J. *Inflation et "crise de confiance."* La Revue Internat., Dec., 1946. Pp. 6.

HOWENSTINE, E. J., JR. *Public works policy in the twenties*. Soc. Research, Dec., 1946. Pp. 22.

Howenstine, E. J., Jr. *Some principles of compensatory action.* Quart. Jour. Econ., Nov., 1946. Pp. 4.

Metzler, L. A. *Factors governing the length of inventory cycles.* Rev. Econ. Stat., Feb., 1947. Pp. 15.

Mills, F. C. *Elasticity of physical quantities and flexibility of unit prices in the dimension of time.* Jour. Am. Stat. Assoc., Dec., 1946. Pp. 29.

Röpke, W. *Offene und zurückgestaute inflation.* Kyklos, Vol. 1, 1947. Pp. 15.

Tait, D. C. *Development works and full employment.* Internat. Lab. Rev., Nov.–Dec., 1946. Pp. 12.

*Inflation problems at home and abroad.* Mo. Lab. Rev., Jan., 1947. Pp. 15.

## Public Finance; Fiscal Policy; Taxation

Bronfenbrenner, M. *Sales taxation and the Mints plan.* Rev. Econ. Stat., Feb., 1947. Pp. 4.

Jacobsson, P. *Le financement de la guerre en Allemagne.* Kyklos, Vol. 1, 1947. Pp. 26.

Lindholm, R. W. *German finance in World War II.* Am. Econ. Rev., Mar., 1947. Pp. 12.

Mann, F. K. *The dual-debt system as a method of financing government corporations.* Jour. Pol. Econ., Feb., 1947. Pp. 18.

*The new budget.* Fed. Reserve Bull., Feb., 1947. Pp. 8.

## Money and Banking; Short-Term Credit

Mena, R. O., *Monetary problems in Mexico.* Jour. Bus. Univ. Chicago, Jan., 1947. Pp. 8.

Usokin, M. *Short-term credit in the Soviet economy.* Planovoye Khozyaistvo, no. 3, May–June, 1946.

Wilson, J. S. G. *Australia's central bank.* Jour. Pol. Econ., Feb., 1947. Pp. 11.

## International Trade, Finance and Economic Policy

Adrian, A. H. *Le commerce de l'U.R.S.S. avec les états voisins.* La Revue Internat., Dec., 1946. Pp. 10.

Hoselitz, B. F. *International cartel policy.* Jour. Pol. Econ., Feb., 1947. Pp. 27.

Mikesell, R. F. *The determination of postwar exchange rates.* So. Econ. Jour., Jan., 1947. Pp. 13.

Rona, F. *Objectives and methods of exchange control in the United Kingdom during the war and post-war transition.* Economica, Nov., 1946. Pp. 19.

Rosenson, A. *The Anglo-American financial agreement.* Am. Econ. Rev., Mar., 1947. Pp. 9.

Rossouw, G. S. H. *The problem of imperial preference.* So. African Jour. Econ., Sept., 1946. Pp. 15.

Stefferud, A. *Yearbooks reconstituted.* Land Policy Rev., Winter, 1946. Pp. 3.

Weyl, N. and Wasserman, M. J. *The International Bank.* Am. Econ. Rev., Mar., 1947. Pp. 15.

*F.A.O. Preparatory Commission report on world food proposals.* Dept. of State Bull., Feb., 1947. Pp. 4.

*How the steel cartel operated.* Dun's Rev., Jan., 1947. Pp. 3.

*The interplay between domestic and foreign policy.* Dun's Rev., Jan., 1947. Pp. 3.

## Public Control of Business; Public Administration; National Defense and War

Bronfenbrenner, M. *Price control under imperfect competition.* Am. Econ. Rev., Mar., 1947. Pp. 14.

Browne, G. W. G. *Economists and government.* So. African Jour. Econ., Sept., 1946. Pp. 14.

Cassady, R., Jr., *Legal aspects of price discrimination: federal law.* Jour. Marketing, Jan., 1947. Pp. 15.

Fox, H. G. *Patents in relation to monopoly: a rejoinder.* Canadian Jour. Econ. and Pol. Sci., Feb., 1947. Pp. 13.

Maxwell, J. A. *Gasoline rationing in the United States II.* Quart. Jour. Econ., Nov., 1946. Pp. 31.

Schweitzer, A. *Profits under Nazi planning.* Quart. Jour. Econ., Nov., 1946. Pp. 25.

Steffen, R. *Invalid patents and price control.* Yale Law Jour., Nov., 1946. Pp. 25.

Stewart, S. I. *Statutes, orders and official statements relating to Canadian war-time economic controls.* Canadian Jour. Econ. and Pol. Sci., Feb., 1947. Pp. 16.

Wendt, P. *The control of rubber in World War II.* So. Econ. Jour., Jan., 1947. Pp. 25.

## Industrial Organization; Price and Production Policies; Business Methods

Turetski, Sh. *Strengthening economic accountability in the new Five Year Plan.* Planovoye Khozyaistvo, no. 4, July–Aug., 1946.

## Marketing; Domestic Trade

Gaw, W. A. *The use of audio-visual aids in teaching marketing.* Jour. Marketing, Jan., 1947. Pp. 6.

Seelye, A. L. *The importance of economic theory in marketing.* Jour. Marketing, Jan., 1947. Pp. 5.

## Mining; Manufacturing; Construction

Baibakov, N. *The petroleum industry in the Five Year Plan.* Planovoye Khozyaistvo, no. 3, May–June, 1946.

Grossman, V. *On strengthening the rule of economy in construction.* Planovoye Khozyaistvo, no. 3, May–June, 1946.

Korobov, A. *The construction program of the new Five Year Plan.* Planovoye Khozyaistvo, no. 3, May–June, 1946.

Lokshin, E. *The Soviet method of industrialization.* Planovoye Khozyaistvo, no. 4, July–Aug., 1946.

Nikitin, P. *Machine construction and the development of technique in the new Five Year Plan.* Planovoye Khozyaistvo, no. 4, July–Aug., 1946.

Roitburd, L. *The iron and steel industries of the capitalist countries in the war and postwar years.* Mirovoye Khozyaistvo i Mirovaya Politika, no. 9, Sept., 1946.

Yeremenko, N. *The restoration and development of ferrous metallurgy in the new Five-Year Plan.* Am. Rev. Soviet Union, Nov., 1946. Pp. 9.

## Agriculture; Forestry; Fisheries

Dimitriev, V. *The basic law of collective farm life.* Planovoye Khozyaistvo, no. 5, Sept.–Oct., 1946.

Engberg, R. C. *Farm credit agencies as an influence upon land values.* Jour. Farm Econ., Feb., 1947. Pp. 13.

Levina, R. *The postwar food crisis and its causes.* Mirovoye Khozyaistvo i Mirovaya Politika, no. 9, Sept., 1946.

Levina, R. *The postwar food situation in the capitalist countries.* Planovoye Khozyaistvo, no. 3, May–June, 1946.

Nowell, R. I. *The farm land boom.* Jour. Farm Econ., Feb., 1947. Pp. 20.

Ogg, W. R. *Postwar agricultural program.* Jour. Farm. Econ., Feb., 1947. Pp. 13.

Pendleton, R. L. *Land use in southeast Asia.* Far East. Survey, Feb., 1947. Pp. 5.

Saloutos, T. *The spring-wheat farmer in a maturing economy 1870–1920.* Jour. Econ. Hist., Nov., 1946. Pp. 18.

Schultz, T. W. *Food, agriculture, and trade.* Jour. Farm Econ., Feb., 1947. Pp. 19.

Shapavalov, M. *Crop migrations in the Soviet Union.* Am. Rev. Soviet Union, Nov., 1946. Pp. 8.

Sollertinskaya, E. *Differential rent in socialist agriculture.* Planovoye Khozyaistvo, no. 5, Sept.–Oct., 1946.

Wells, O. V. *Agricultural legislation: an appraisal.* Jour. Farm Econ., Feb., 1947. Pp. 11.

## Economic Geography; Regional Planning; Urban Land; Housing

*Trends in housing during the war and post war periods.* Mo. Lab. Rev., Jan., 1947. Pp. 13.

*What's ahead for building construction in 1947?* Dun's Rev., Jan., 1947. Pp. 3.

## Labor and Industrial Relations

Backman, J. *The budget approach to wage adjustments—a case study.* Jour. Pol. Econ., Feb., 1947. Pp. 8.

Chamberlain, N. W. *Union obligations under the National Labor Relations act.* Am. Econ. Rev., Mar., 1947. Pp. 8.

Dymond, W. R. *Union-management co-operation at the Toronto factory of Lever Brothers Limited.* Canadian Jour. Econ. and Pol. Sci., Feb., 1947. Pp. 42.

Gouldner, A. W. *Attitudes of "progressive" trade-union leaders.* Am. Jour. Soc., Mar., 1947. Pp. 4.

Grigoriev, A. *Raising the productivity of industrial labor.* Planovoye Khozyaistvo, no. 4, July–Aug., 1946.

Hochwald, W. *Collective bargaining and economic theory.* So. Econ. Jour., Jan., 1947. Pp. 19

Less, S. *Revival of free labor organization in the U. S. occupied zone in Germany—a preview.* So. Econ. Jour., Jan., 1947. Pp. 10.

Powell, D. M. *The negro worker in Chicago industry.* Jour. Bus. Univ. Chicago, Jan., 1947. Pp. 12.

Summers, C. W. *Admission policies of labor unions.* Quart. Jour. Econ., Nov., 1946. Pp. 42.

Whitehill, A. M., Jr. *Location of potential labor reserves from published data.* So. Econ. Jour., Jan., 1947. Pp. 6.

Young, C. E. *Applications and problems of productivity data.* Jour. Am. Stat. Assoc., Dec., 1946. Pp. 11.

*Collaboration of employers and workers with government departments in Great Britain.* Internat. Lab. Rev., Nov.–Dec., 1946. Pp. 10.

*Nature and extent of frictional unemployment.* Mo. Lab. Rev., Jan., 1947. Pp. 10.

*Postwar work stoppages caused by labor-management disputes.* Mo. Lab. Rev., Dec., 1946. Pp. 21.

*Productivity changes since 1939.* Mo. Lab. Rev., Dec., 1946. Pp. 15.

*State and regional variations in prospective labor supply.* Mo. Lab. Rev., Dec., 1946. Pp. 21.

## Consumption; Cooperation

Perregaux, E. A. *The future of farm cooperatives in the United States.* Jour. Farm Econ., Feb., 1947. Pp. 13.

Robotka, F. *A theory of cooperation.* Jour. Farm. Econ., Feb., 1947. Pp. 21.

## Population; Migration; Vital Statistics

Simon, H. A. *Effects of increased productivity upon the ratio of urban to rural population.* Econometrica, Jan., 1947. Pp. 12.

Whelpton, P. K. *Reproduction rates adjusted for age, parity, fecundity, and marriage.* Jour. Am. Stat. Assoc., Dec., 1946. Pp. 16.

## Unclassified Items

Khromov, P. A. *Report on the Economic Institute of the Academy of Sciences of the U.S.S.R.* Am. Rev. Soviet Union, Nov., 1946.

Parsons, T. *The science legislation and the role of the social sciences.* Am. Soc. Rev., Dec., 1946. Pp. 13.

# NOTES

*Change of editorial address*—Since the managing editor has joined the staff of the Council of Economic Advisers to the President, the editorial office of the *Review* will return to Washington, D.C., beginning July 1, 1947. Temporarily the postal address will be care of Social Science Research Council, 726 Jackson Place, N.W., Washington 6, D.C.

## ESTABLISHMENT OF MEDALS OF HONOR

The Executive Committee of the American Economic Association announces the establishment of two medals to honor American contributions to the body of economic thought and knowledge, to be known as the Francis A. Walker Gold Medal and the John Bates Clark Silver Medal.

The Francis A. Walker Gold Medal is to be awarded not more frequently than once every five years to that living American economist who, in the judgment of the awarding body, has made over the course of his life the most distinguished contribution to economics. This medal is named after the first president of the American Economic Association whose contributions to economic theory, money and banking, and statistics first gave definitive stature to American economics.

The John Bates Clark Silver Medal is to be awarded approximately biennially to that American economist under the age of forty who is adjudged to have made the most significant contribution to economic thought and knowledge. This medal is named after the brilliant economist who, along with von Thünen, first developed the marginal productivity theory of wages and interest and who is regarded by most economists as having been the most distinguished member of our profession in this country.

Attention is invited to the fact that these awards are to be made for contributions to the central body of economic thought and knowledge. They are not to be made for excellence in teaching, administration or public service. Neither are they to be made for contributions to special branches of economics except in so far as these may contribute vitally to general economic doctrine and knowledge.

The procedure for making these awards is to be similar to that provided for the selection of the president of the American Economic Association. A Committee on Honors and Awards, consisting of six persons, appointed by the president of the Association, will present nominations to the electoral college. Two members of this initial committee are to serve for two years; two members for four years, and two members for six years. Thereafter all members of this committee will serve for six years. The names of those nominated by this committee are to be submitted for final selection to an electoral college consisting of (a) the members of the Committee on Honors and Awards, (b) the elected members of the Executive Committee of the Association, and (c) the president, the vice-presidents, and the secretary of the Association together with the three immediate past presidents. This electoral college has also the power to add other names to the panel suggested for consideration by the Committee on Honors and Awards.

The following persons have been appointed by President Douglas as initial members of the Committee on Honors and Awards and have accepted: for the two-year term—Stuart Daggett, University of California, Theodore W. Schultz, University of Chicago; for the four-year term—Raymond T. Bye, University of Pennsylvania, Frederick B. Garver, University of Minnesota; for the six-year term—Calvin B. Hoover, Duke University, Frederick C. Mills, Columbia University (Chairman).

It is planned to make the initial award of these medals during the current year and for them to be formally presented to the recipients during the annual meetings of the Association which are to be held in Chicago during the forthcoming Christmas holidays from December 28th to 30th inclusive.

The following persons have recently become members of the AMERICAN ECONOMIC ASSOCIATION:

Ackerman, G. F., 244 West 232nd St., New York 63, N.Y.
Adams, R. W., 179 Washington Ave., Garden City, N.Y.

Adler, Miss A. V., University of Toledo, Toledo 6, Ohio
Ala'i, H., 2702 Wisconsin Ave., Washington 7, D.C.
Alhadeff, D., Dept. of Economics, Harvard University, Cambridge 38, Mass.
Allaway, R., 581 Logan St., Brooklyn 8, N.Y.
Amory, J. F., 703 West 171st St., New York 32, N.Y.
Anderson, D. L., Canberra University College, Canberra, Australia
Andrews, A., 220 Broadway, New York 7, N.Y.
Anjaria, J. J., International Monetary Fund, 1818 H St., N.W., Washington, D.C.
Ariz, J. M., 2338 Telegraph Ave., Berkeley 4, Calif.
Ashbrook, A. G., Jr., 210B Graduate House, Massachusetts Institute of Technology, Cambridge 39, Mass.
Atwood, E. C., Jr., 260 Crescent Ave., Buffalo 14, N.Y.
Auxier, G. W., 2 Horseshoe Drive, Falls Church, Va.
Banner, P. H., 8029 Eastern Ave., Silver Springs, Md.
Barbash, Miss B., 2475 85th St., Brooklyn 14, N.Y.
Bard, J. J., 5824 North 13th St., Philadelphia, Pa.
Barlow, Mrs. W. D., 6528 Ager Rd., Hyattsville, Md.
Barnett, H. J., 393 Western Ave., Cambridge, Mass.
Bartlett, P. B., Bates College, Lewiston, Me.
Baude, W. A., Dept. of Commerce, University of Cincinnati, Cincinnati 21, Ohio
Bauder, R. S., 107 B. and P. A. Building, Columbia, Mo.
Bauer, J. J., 3721 Suitland Rd., S.E., Washington 20, D.C.
Beadles, N. A., Dept. of Economics, University of Colorado, Boulder, Colo.
Bean, M. H., 678 Shadowlawn Drive, Westfield, N.J.
Belcher, D. W., 4129 Drew Ave., S., Minneapolis, Minn.
Bell, G. D., 450 Audubon, Apt. 33, New York 33, N.Y.
Bennett, W. B., 4111 Third Road, North Arlington, Va.
Bensen, G. C. S., 105 College Ave., Claremont, Calif.
Bercholz, O., 603 John Jay Hall, Columbia University, New York 27, N.Y.
Berg, J. L., 25 Central Park West, New York 23, N.Y.
Bergmeister, G. M., 424½ Dunbar Ave., Waukesha, Wis.
Bethke, R. H., Discount Corp. of New York, 58 Pine St., New York 5, N.Y.
Betty, S. M., Route 5, Box 324-A, Spring Hill, Mobile Co., Ala.
Billings, E. E., Jessup, Md.
Billington, W. T., N-5, Vetsville, Boulder, Colo.
Blaine, J. C. D., University of North Carolina, Chapel Hill, N.C.
Blancato, A. F., 8612-18th Ave., Brooklyn 14, N.Y.
Blau, Miss G. J., 1722 Connecticut Ave., Washington, D.C.
Blazej, Z., National Bank of Czechoslovakia, Prague, Czechoslovakia
Bloch, H. D., University of Toledo, Toledo 6, Ohio
Bolton, E., c/o Paterson Zochonis & Co., Ltd., P.O. Box 62, Accra, Gold Coast, British West Africa
Bonnell, E. T., 2141 Eye St., N.W., Washington, D.C.
Borden, S., 1241 Prospect Ave., Brooklyn 18, N.Y.
Borders, W. G., 30 E. 704th St., Shanks Village, Orangeburg, N.Y.
Bothwell, W. C., Drury College, Springfield, Mo.
Bourniatian, M., 7 rue Copernic, Paris 16, France
Bowers, R. S., Western Michigan College, Kalamazoo, Mich.
Bowie, L. W., 123 West 14th St., Davenport, Iowa
Bradbury, R. W., American Institute for Foreign Trade, P.O. Box 191, Thunderbird Field, Phoenix, Ariz.
Brand, P. J., 5515 8th St., N.W., Washington 11, D.C.
Brazer, H. E., 727 Furnald Hall, Columbia University, New York 27, N.Y.
Brodsky, N., 2720 Wisconsin Ave., Apt. 103, N.W., Washington 7, D.C.
Brokaw, P. L., 715 South Royal St., Alexandria, Va.
Brown, E. C., Dept. of Economics, Massachusetts Institute of Technology, Cambridge, Mass.
Browne, W., 211 East Delaware Place, Chicago 11, Ill.

Bryski, A. J., 831 North 4th St., Philadelphia 23, Pa.
Brzyski, S. B., 3946 Priscilla St., Philadelphia 40, Pa.
Burch, D. W., Room 833, Rainier Hall, University of Washington, Seattle, Wash.
Burns, D. F., Language Hall, University of Florida, Gainesville, Fla.
Burr, Miss S. S., Capital Markets Section, Board of Governors of Federal Reserve System, Washington 25, D.C.
Byrne, Miss E. E., 38-15th Ave., Columbus, Ohio
Camitta, Miss R., 25 Central Park West, New York, N. Y.
Carbert, L. E., 1217 John Jay Hall, Columbia University, New York 27, N.Y.
Carey, J., 380 Beacon St., Boston 16, Mass.
Carroll, J. J., 94 Richland Ave., Athens, Ohio
Carter, J. J., American Institute for Economic Research, Great Barrington, Mass.
Case, W. W., Federal Reserve Bank, Foreign Research Div., 33 Liberty St., New York 7, N.Y.
Caves, Miss M. R., 112 Brinton St., Buffalo, N.Y.
Chadbourne, E., Dept. of Economics, De Paul University, 2322 Kenmore Ave., Chicago, Ill.
Chalmers, W. E., U. S. Conciliation Service, U. S. Dept. of Labor, Washington 25, D.C.
Chambers, R. E., 958 Ackerman Ave., Syracuse, N.Y.
Chances, R. J., Trinity College, Hartford, Conn.
Chapman, Miss J. G., 312 West 81st St., New York 24, N.Y.
Cheadle, H. L., 12 Perry Ave., Kensington, Md.
Chen, Y., 42 Divinity Hall, Harvard University, Cambridge 38, Mass.
Cherin, G., 3424 B St., S.E., Washington, D.C.
Chester, H. L., 83-52 Talbot St., Kew Gardens, L.I., N.Y.
Cheyfitz, E. T., Motion Picture Assoc., 1600 Eye St., N.W., Washington 6, D.C.
Christian, D. E., 124 Edwards, Sausalito, Calif.
Clack, R. W. D., 24½ N. Chester St., Indianapolis 1, Ind.
Clark, E., 917 Broadmoore Drive, Dayton 9, Ohio
Cohen, J., Dept. of Economics, Indiana University, Bloomington, Ind.
Cohen, J. L., 1225 John Jay Hall, Columbia University, New York 27, N.Y.
Cohen, S., 12424 Tuscora, Cleveland, Ohio
Coker, J. D., 16 Lee Blvd., Falls Church, Va.
Conkling, R. L., 4036 N.E. 69th St., Portland 13, Ore.
Conley, G. B., 2854 Connecticut Ave., N.W., Apt. 10, Washington 8, D.C.
Conley, Miss H., 708 Fairfield Manor, Fort Wayne 6, Ind.
Consler, R. E., St. Lawrence University, Canton, N.Y.
Cooper, W. W., Carnegie Institute of Technology, Pittsburgh 13, Pa.
Cota, Mrs. N. I., Jr., 1943 North Summit Ave., Apt. 9, Milwaukee, Wis.
Cottle, C. S., 38 Hagood Drive, Atlanta, Ga.
Cramer, L. S., 47 Hatherly Rd., Brighton 35, Mass.
Creighton, J. W., 155 Beechwood Road, New Wilmington, Pa.
Crewson, H. B., Jr., Dept. of Economics, Ohio State University, Columbus 10, Ohio
Crockett, S. L., R.D. 1, Box 114-A, Hyattsville, Md.
Cunkle, A. L., Varsity Hall, University of Virginia, Charlottesville, Va.
Cyert, R. M., Shanks Village, Orangeburg, N.Y.
David, R. S., 4862 MacArthur Blvd., Washington 7, D.C.
Davies, J., Dept. of Economics, Ohio State University, Columbus 10, Ohio
Davis, J. C., Council of Economic Advisers, Executive Office of the President, Washington 25, D.C.
Dembitz, L. N., 3414 Garfield St., N.W., Washington 7, D.C.
De Podwin, H. J., 512 12th St., Brooklyn, N.Y.
Deyrup, Miss F. J., 870 Riverside Drive, New York 32, N.Y.
Dillinger, J. L., 36 Gorham St., Cambridge 38, Mass.
Donley, W. G., Standard Oil Co. of California, P. O. Box 3495, San Francisco 20, Calif.
Dowd, L. P., Dept. of Economics, University of Michigan, Ann Arbor, Mich.
Downing, W. G., Creighton University, Omaha, Nebr.
Ducoff, L. J., Division of Farm Population and Rural Welfare, Bureau of Agricultural Economics, Washington, D.C.

Duffy, Miss D., 163 East 46th St., Apt. B22, New York 17, N.Y.
Eber, M., 129 Englewood Ave., Buffalo 14, N.Y.
Edwards, J. D., 80 Williams St., New York 7, N.Y.
Efross, S. T., 128 Webster St., N.W., Washington 11, D.C.
Egekvist, W. S., ESS/PC and R, GHQ-SCAP, APO 500, c/o Postmaster, San Francisco, Calif.
Ehlers, K. H., U.S. Civ., 3rd Mil. Govt. Regt. (ICD), APO 170, c/o Postmaster, New York, N.Y.
Ellenbogen, J., 204 Bernard Court, Madison 5, Wis.
Elliott, R. D., 1560 Amsterdam Ave., New York 31, N.Y.
Emerson, H. N., Moylan Ave. and Forrest St., Moylan, Pa.
Engel, Miss A., 69-06 Dartmouth St., Forest Hills, N.Y.
England, W. H., 1344 Iris St., N.W., Washington 12, D.C.
English, H. E., Dept. of Economics, University of California, Berkeley 4, Calif.
Entes, J. M., 542 Parkwide Ave., Brooklyn, N.Y.
Ertell, M. W., School of Business Administration, University of Buffalo, Buffalo, N.Y.
Ervin, J. R., 217 S. Cassingham Road, Columbus, Ohio
Esteves, V. R., 654 Union St., Santurce, Puerto Rico
Etzler, C. D., 1961 Riverside Drive, Dayton 5, Ohio
Evant, A. T., 35-36 76th St., Jackson Heights, L.I., N.Y.
Fain, Miss E., P.O. Box 193, Johnson Hall, 411 West 116th St., New York 27, N.Y.
Fairchild, R. R., 120 South La Salle St., Chicago, Ill.
Fehmers, J. M., c/o Netherland Embassy, Agency for Ministry of Finance, Hereford House, 117 Park St., London W. 1, England
Ficker, H., 60 Elm Ave., Takoma Park, Md.
Fisher, J. L., 17 Harvard Way Extension, Soldiers Field, Cambridge 63, Mass.
Flanders, Mrs. H., 6208 Ellis Ave., Chicago 37, Ill.
Fletcher, R. D., 2000 F St., N.W., Washington 6, D.C.
Fliss, N. J., 4216 45th St., No. 272, Milwaukee 9, Wis.
Foa, B., 103 East 86th St., New York 28, N.Y.
Foregger, Mrs. E. H., 3223 West Cherry St., Milwaukee 8, Wis.
Forgang, I., Kibbutz Gimmel, Rishon Le Zion, Palestine
Franklin, B. M., 650 Ocean Ave., Brooklyn 26, N.Y.
Friday, C. B., 1360 Lincoln Ave., Loveland, Colo.
Fried, E. R., 113 Galveston Place, S.W., Washington 20, D.C.
Frucht, P. P., 154 Power St., Providence, R.I.
Funk, A. L., 53 First Ave., Greenville, Pa.
Furman, J. P., 1365 Geranium St., N.W., Washington 12, D.C.
Fusfeld, D. R., 2026 R St., N.W., Washington, D. C.
Gardner, E. H., Gaylordsville, Conn.
Gardner, Mrs. H. R., 102-28 62nd Drive, Forest Hills, L.I., N.Y.
Garvin, W. J., 315 Franklin St., N.E., Washington 2, D.C.
Gates, J. E., 159 W. Burton Place, Chicago 10, Ill.
Gavin, M. H., Dept. of Economics, St. Louis University, St. Louis 8, Mo.
Gertler, M., West St. and Union Ave., Harrison, N.Y.
Gidumal, H., 1125 John Jay Hall, Columbia University, New York 27, N.Y.
Giles, J. B., School of Business, Room 308, Columbia University, New York 27, N.Y.
Gillam, C. W., Dept. of Economics, Carleton College, Northfield, Minn.
Gilliatt, N., 2527 Central Park Ave., Evanston, Ill.
Gitlow, A. L., Old Nyack Turnpike, Spring Valley, N.Y.
Gladstein, E., 2104 Crotona Parkway, New York 60, N.Y.
Glasener, F. R., Normal University, Normal, Ill.
Glickman, D. L., 17 Riggs Road, N.E., Washington 11, D.C.
Golden, P., Furnald Hall, Columbia University, New York 27, N.Y.
Gomez, Mrs. A. M., American Embassy, Reforma 64, Mexico, D.F.
Good, D. E., 124 N. Lawn Ave., Bluffton, Ohio
Goodman, A. D., 245 East 180th St., New York 57, N.Y.
Gordon, B. H., Dept. of Labor, Empire State Bldg., 350 Fifth Ave., New York 1, N.Y.

Gordon, W. J., Augustinian College, 3900 Harewood Road, N.E., Washington 17, D.C.
Gorham, J. E., 3525 T St., N.W., Washington, D.C.
Gorsuch, Miss M. J., 2344 Prospect Ave., Cleveland, Ohio
Gottesman, Miss E., 68 West 92nd St., New York 25, N.Y.
Gottlieb, E., 2801 Sedgwick Ave., New York 63, N.Y.
Gray, D. H., 84 Capen Blvd., Buffalo 14, N.Y.
Gregory, H. E., 210 Commerce Hall, University of Washington, Seattle 5, Wash.
Groman, Miss E., 1419 46th St., Brooklyn 19, N.Y.
Grose, L., 429-18th St., N.E., Washington 2, D.C.
Gross, T. G., Box 3249 Terminal Annex, Los Angeles 54, Calif.
Grosse, Mrs. R. N., Bates College, Dept. of Economics, Lewiston, Me.
Grossman, M. C., Unit 20-A, Veterans' Village, Athens, Ohio
Grove, D. L., Board of Governors of Federal Reserve System, Washington 25, D.C.
Grunwald, J., 828 John Jay Hall, Columbia University, New York 27, N.Y.
Grunwald, K., P.O. Box 764, Jerusalem, Palestine
Guild, C. J., 1510 Allison St., N.W., Washington 11, D.C.
Gwin, J. M., Dept. of Poultry Husbandry, University of Maryland, College Park, Md.
Haines, D. R., 16 Jayne Place, Baldwin, L.I., N.Y.
Halasi, A. B., 150 Claremont Ave., New York 2, N.Y.
Hallam, A. W., 532 West Center St., Pomona, Calif.
Halpin, C. A. J., Jr., 174 West Seymour St., Philadelphia 44, Pa.
Halverson, G. C., c/o Howard Peacock, Apt. 34, 438 W. 116th St., New York 27, N.Y.
Hamilton, D. C., 12 Park Ave., Bronxville, 8, N.Y.
Hamovitch, W., Crosby Hall, University of Buffalo, Buffalo, N.Y.
Hanchett, P. E., 311 Hall of Government, George Washington University, Washington 6, D.C.
Handler, A. B., 3319 R St., N.W., Washington 7, D.C.
Hannay, E. B., Dept. of Economics, Princeton University, Princeton, N. J.
Hanson, J. C., 198 St. John St., Fredericton, New Brunswick, Canada
Happel, Miss M., 267 Kennedy Ave., Pittsburgh 14, Pa.
Hardman, J. B. S., 55 West 11th St., New York 11, N.Y.
Hart, J. N., R.D. 2, Kent, Ohio
Hartog, R., 1175 Bay St., Toronto 5, Canada
Hartwig, R. T., 6217 Kimbark Ave., Chicago 37, Ill.
Hastings, Mrs. M. H., 104 Fairbanks Ave., Wellesley Hills 82, Mass.
Hayman, H. H., R.D. 1, Spring City, Pa.
Heaton, E., 1469 East Decatur St., Decatur, Ill.
de Hedervary, Miss C., Division of International Trade, United Nations, Lake Success, N.Y.
Hellmuth, W. F., Jr., 325 Temple St., New Haven 11, Conn.
Hench, W. M., 412 West Fairmount Ave., State College, Pa.
Henderson, J. P., 204 Basic College, Michigan State College, East Lansing, Mich.
Herman, E. S., 4006 Pine St., Philadelphia 4, Pa.
Herrera-Baez, M.D., 500 Riverside Drive, Box 334, New York 27, N.Y.
Hession, C. H., 280 86th St., Brooklyn 9, N.Y.
Hetzel, Miss A. M., 1716 Lanier Place, N.W., Washington 9. D.C.
Heymann, H., Associated Colleges of Upper New York, Sampson College, Sampson, N.Y.
Higgins, B. H., Purvis Hall, McGill University, 1020 Pine Ave. W., Montreal 2, Canada
Hill, F. G., 311 West 100th St., New York 25, N.Y.
Hill, R. J., 50 Congress St., Boston 9, Mass.
Hillman, M., 235 Wooster St., New York 12, N.Y.
Hirseman, P. W., Dept. of Economics, Syracuse University, Syracuse 10, N.Y.
Hodges, H. G., 334 Third National Bldg., Dayton 2, Ohio
Holland, D. M., Hamilton Hall, Room 718, Columbia University, New York 27, N.Y.
Hollinger, W. C., The Knoll, R.D. 1, West Chester, Pa.
Horton, B. J., 56 Seventh Ave., New York 11, N.Y.
Hosking, F. J., 130 E. Leland St., Chevy Chase 15, Md.
Hostetler, L. M., Federal Reserve Bank of Cleveland, Cleveland 1, Ohio
Hudson, Miss H. D., Mount Holyoke College, South Hadley, Mass.

Hudson, J. T., Jr., P.O. Box 2023, Richmond, Va.
Hunter, L. C., Industrial College of the Armed Forces, Washington, D.C.
Hurd, W. B., McMaster University, Hamilton, Ontario, Canada
Hutner, S., 57 Crescent St., Northampton, Mass.
Isbister, C. M., 1025 Temporary Bldg. 7, Ottawa, Canada
Jacobson, Miss K., 1020 19th St., N.W., Washington 6, D.C.
Janow, Miss J. B., 31 Altamont Apts., Charlottesville, Va.
Jansson, R. E., 731 Melrose St., Chicago 13, Ill.
Jarboe, Mrs. P. W., 411 34th St., N.W., Washington 19, D.C.
Johns, V. O., Box 659, Blacksburg, Va.
Johnson, D. G., Dept. of Economics, University of Chicago, Chicago 37, Ill.
Joseph, M. L., 115 Monroe Park, Madison 5, Wis.
Joshi, T. M., 3416 Sansom St., Philadelphia 4, Pa.
Kaplan, J. J., 3500 B St., S.E., Washington, D.C.
Kaplan, N., 5532 Kenwood Ave., Chicago, Ill.
Karp, J. R., 9 Park Place, Princeton, N.J.
Kastin, L. C., 1730 Harrison Ave., New York 53, N.Y.
Kaysen, C., 173 Hancock St., Cambridge 39, Mass.
Keller, F. E., U.S. Chamber of Commerce, Washington, D.C.
Kelly, Miss E. B., 7 MacDougal Alley, New York 11, N.Y.
Kemper, A., 2616 Talbot Road, Baltimore 16, Md.
Kennedy, F. J., P.O. Box 855, New London, Conn.
Kennick, W. J., 18600 Underwood Ave., Cleveland 19, Ohio
Kera, J. W., 84-65 159th St., Jamaica 2, N.Y.
Kershaw, M. W., 82-49 166th St., Jamaica 3, N.Y.
Keyserling, L. H., 3234 N St., N.W., Washington, D.C.
Kibrick, R. R., 30 Cottage Ave., Mount Vernon, N.Y.
Koenig, E., Palestine Industrial Council, Hassollel St., Jerusalem, Palestine
Kolodny, J., 829 East 46th St., Brooklyn 3, N.Y.
Koretz, S., 1204 Quincy St., N.W., Washington 11, D.C.
Korn, S., 2801 Erie St., S.E., Washington, D.C.
Kraemer, E. O., Dept. of Economics and Business, University of Hawaii, Honolulu, Hawaii
Kral, A., International Bank for Reconstruction and Development, Room 1113, 1818 H St., N.W., Washington, D.C.
Krauskopf, H. K., 519 Furnald Hall, Columbia University, New York 27, N.Y.
Ku, T., 3629 Locust St., Philadelphia 4, Pa.
Kuehner, Miss C. A., 56 West Northwood Ave., Columbus, Ohio
Kuhlman, C. E., Box 111, University, Miss.
Kurth, E. A., Georgetown University, Washington 7, D.C.
Lam, Miss M., 900 19th St., Washington, D.C.
Lampman, R. J., 829 Burbank, Madison 5, Wis.
Landau, A., 23 Schenck Ave., Great Neck, L.I., N.Y.
Landauer, Miss G., 1277 Brentwood Road, N.E., Washington, D.C.
Langley, J. H., Prentice-Hall Inc., 70 Fifth Ave., New York 11, N.Y.
Lay, C. F., 221 West Jackson, Carbondale, Ill.
Lecht, L. A., 1119 John Jay Hall, Columbia University, New York 27, N.Y.
Lehman, L. C., 1392 Summit St., Columbus, Ohio
Lehrer, M., 4324 Halley Terrace, S.E., Washington 20, D.C.
Leibacker, C. E., 3418 91st St., Jackson Heights, New York, N.Y.
Leibenstein, H. M., 2008 Sherman Ave., Evanston, Ill.
Lekachman, R., 395 Carpenter Ave., Sea Cliff, N.Y.
Lichtenstein, R., 1417 Grand Concourse, Bronx, New York 52, N.Y.
Lieu, D. K., Chinese Embassy, Washington 9, D.C.
Lightman, J. M., 644 Lamont St., N.W., Washington 10, D.C.
Linborg, Miss E., Johnson Hall, Columbia University, New York 27, N.Y.
Lion, D., Dept. of Economics, University of Buffalo, Buffalo, N.Y.
Lipman, H. T., 3551 39th St., N.W., Washington 16, D.C.

Lipsey, R. E., 2501 Davidson Ave., New York 63, N.Y.
Liss, S., 114 Shepherd St., Chevy Chase 15, Md.
Lockard, E. K., West Virginia Wesleyan College, Buckhannon, W. Va.
Long, W. F. E., II, 3902 McKinley St., N.W., Washington 15, D.C.
Lowery, D., 894 N. Kensington St., Arlington, Va.
Ludmer, H., 1625 Campus Road, Toledo 6, Ohio
Macdonald, W. D., 294 Washington St., Boston, Mass.
Maddox, J. R., 2454 South Adams, Denver 10, Colo.
Mangan, R., 921 Grove St., Elmira, N.Y.
Manteros, C., 76 Beaver St., Suite 505, New York, N.Y.
Marcoux, D. C., Washburn Municipal University, Topeka, Kans.
Margolin, R., 512-5th St., S.E., Washington 3, D.C.
Markovitz, J. L., 1032 Bankers Securities Bldg., Philadelphia 7, Pa.
Maroni, Y. R., 10 Barnes St., Providence, R.I.
Marshall, H., Dominion Bureau of Statistics, Ottawa, Ont., Canada
Martin, Mrs. E. W., 925 Grove St., Jacksonville, Ill.
Mason, G. B., 1229 Scott St., Covington, Ky.
Mateo, F. A., Apartado 2910, Lima, Peru
Matisoff, H., 3539 A St., S.E., Washington 19, D.C.
Matlock, W. H., c/o James E. Rae and Co., 180 East California St., Pasadena 5, Calif.
Matteson, R. J. M., 684 Park Ave., New York 21, N.Y.
May, A. B., Dept. of Economics, University of Denver, Denver, Colo.
Mayes, H., Rauscher, Pierce and Co., 2703 Mercentile Bank Bldg., Dallas, Tex.
McFarland, C., Office of the Administrator, National Housing Agency, Washington 25, D.C.
McHugh, T. F., C209 A, University of Arkansas, Fayetteville, Ark.
McKean, R. N., 5659 Drexel Ave., Chicago 37, Ill.
McKinly, D. H., Dept of Economics, Pennsylvania State College, State College, Pa.
McKinney, G. W., Jr., White Hall, Albemarle Co., Va.
McKnight, J., 237 West 15th St., New York 11, N.Y.
Meacham, C. W., Hood College, Frederick, Md.
Meday, H. H., Occidental College, Box 391, Los Angeles 41, Calif.
Meislik, Miss E., 378 Bleecker St., New York 14, N.Y.
Melnicoff, D. C., Federal Reserve Bank, Philadelphia, Pa.
Mendelson, M., Dept. of Economics, Cornell University, Ithaca, N.Y.
Merzbach, L. H., Box 278, Southwestern Univ. Sta., Georgetown, Tex.
Metzler, L. A., Dept. of Economics, Yale University, New Haven, Conn.
Michelsen, C. P. A., 119-A St. Albans Rd., Flat #2, Watford, Herts., England
Miller, D. M., 111 East Boyd St., Norman, Okla.
Miller, E. J., 405 Hilgard Ave., Los Angeles, Calif.
Miller, Mrs. H. H., 1098 National Press Bldg., Washington, D.C.
Miller, H. P., 591 South 20th St., Arlington, Va.
Miller, J. W., 6350 Garesche Ave., St. Louis 20, Mo.
Miller, Miss S., Fort Trumbull Branch, University of Connecticut, New London, Conn.
Milne, Miss M. L., 2700 Wisconsin Ave., N.W., Washington 7, D.C.
Mitchell, A., 120 Ave. N, Brooklyn, N.Y.
Modlin, C. P., Jr., Graduate College, Princeton University, Princeton, N.J.
Moffett, R. L., 1426 G St., N.W., Room 703, Washington 5, D.C.
Moiseeff, M., Pacific Bldg., Room 812, San Francisco 3, Calif.
Moll, J. R., 1029 Vermont Ave., N.W., Room 804, Washington 5, D.C.
Moore, J. B., University of Denver, Denver 10, Colo.
Morse, C., Board of Governors of the Federal Reserve System, Washington 25, D.C.
Moss, R. R., 65 East 55th St., New York 22, N.Y.
Motland, M. A., 319 Bellevue St., Newton 58, Mass.
Murphy, A. de la S., 8904 11B St., Richmond Hill 18, L.I., N.Y.
Murphy, J. E., 2235 Creston Ave., Bronx, New York 53, N.Y.
Murphy, W. T., Box 648, Texas A. & M. College, College Station, Tex.
Nash, Sister M. E., Fontbonne College, St. Louis, Mo.
Neiditz, V., 72 Barrow St., New York 14, N.Y.

Neikirk, F. R., Juniata College, Huntingdon, Pa.
Nevin, J. R., John Jay Hall, Columbia University, New York 27, N.Y.
Norman, Mrs. C. B., 1448 W. Euclid, Stockton, Calif.
Nosal, D. F., 79 Clinton Ave., Stamford, Conn.
Novick, D., 3641-39th St., N.W., Washington 16, D.C.
Nutter, G. W., Lawrence College, Appleton, Wis.
Oldman, O. S., 85 Crosby Blvd., Eggertsville 21, N.Y.
Orth, A. P., Dept. of Social Sciences, Dickinson College, Carlisle, Pa.
Osborn, R., Jr., Graduate College, Princeton, N.J.
Osovitz, Miss E., 1622 N. Bentalou St., Baltimore 16, Md.
Oster, C. V., Dept. of Economics, Ohio State University, Columbus 10, Ohio
Osterbind, C. C., 517 Great Falls St., Falls Church, Va.
Owen, J. P., College of Commerce, Himes Hall, Louisiana State University, Baton Rouge 3, La.
Palekar, S. A., 94 Prescott St., Cambridge 38, Mass.
Parker, W. N., 1708 Eye St., N.W., Washington, D.C.
Parrish, L. L., University of Connecticut, Storrs, Conn.
Patterson, R. T., 1923-38th St., N.W., Washington 7, D.C.
Peel, F. W., 1708 Eye St., N.W., Apt. 4, Washington, D.C.
Peel, H. A., 2010 R St., N.W., Washington 8, D.C.
Person, W. A., 125 N. Covell Ave., Sioux Falls, S.D.
Petrie, R. P., Monmouth College, Monmouth, Ill.
Pettibone, W., 1826 Jefferson Place, N.W., Washington 6, D.C.
Phalan, J. L., 39 Lee St., Cambridge, Mass.
Pintos, J., 17 Baker Hill Road, Great Neck, L.I., N.Y.
Plotnik, M. J., Marshall College, Huntington, West Va.
Posada F., A. J., 1809 Summit Ave., Madison, Wis.
Powell, A. R., Division of Resources and Development, State Office Bldg., Jefferson City, Mo.
Pretti, R. C., R.F.D. 2, Glenwood Springs, Colo.
Price, H., Council on Foreign Relations, 58 E. 68th St., New York 21, N.Y.
Price, R. C., 4319 Second Road, N., Arlington, Va.
Prokopec, J., 44 Oriental Blvd., Brooklyn, N.Y.
Raebeck, A. J., 769 St. Marks Ave., Brooklyn 13, N.Y.
Rao, V. K. R. V., University of Delhi, Delhi, India
Rapkin, C., 303 Shirley St., Falls Church, Va.
Rath, J. J., University of Detroit, McNichols Road at Livernois, Detroit, Mich.
Reagan, S. C., 1110 N. Lexington, Arlington, Va.
Reder, M. W., Carnegie Institute of Technology, Schenley Park, Pittsburgh 13, Pa.
Remington, W. W., Route 1, Alexandria, Va.
Richards, J. R., Wayne University, Detroit, Mich.
Riches, E. J., International Labour Office, 3450 Drummond St., Montreal, Canada
Richon, Miss L. P., Dun's Review, Dun and Bradstreet, Inc., 290 Broadway, New York 8, N.Y.
Robinson, Miss N. P., Columbia Univ., Johnson Hall, P.O. Box 55, New York 27, N.Y.
Robinson, R., Dept. of Economics, Room Gov. 312, George Washington University, Washington, D.C.
Ropke, W., 45, Avenue de Champel, Geneva, Switzerland
Rosemblum, Miss J., 200 Bennett Ave., New York 33, N.Y.
Roshwalb, I., 100 Ave. C, New York 9, N.Y.
Rote, F. J., 4 Irving Place, Room 1673-S, New York 3, N.Y.
Roterus, V., 1002 South Franklin St., Flint, Mich.
Rubenstein, I., 2500-14th St., N.E., Washington 18, D.C.
Rubinstein, A. M., Low Hall, Apt. 24, North Brother Island, Bronx, New York 54, N.Y.
Rudney, Miss S. G., 8183 South Anthony Ave., Chicago 17, Ill.
Ruggles, Mrs. R., 472 Broadway, Apt. 6, Cambridge 38, Mass.
Runkle, J. C., Lamoni, Iowa
Ryder, W. S., Central Michigan College of Education, Mount Pleasant, Mich.

Saben, S., 1840 Grand Concourse, New York 57, N.Y.
Sacasa, A., 127 Vincent Hall, University of Minnesota, Minneapolis 14, Minn.
Saidi, A., 7 Park Ave., New York 16, N.Y.
Salkever, L. R., Dept. of Economics, Sampson College, Sampson, N.Y.
Sancetta, A. L., Dept. of Business and Economics, Adelbert College, Western Reserve University, Cleveland, Ohio
Sass, F. N., 3224 West Clifford St., Philadelphia 31, Pa.
Sawyer, Miss R. F., Carnegie Institute of Technology, Pittsburgh 13, Pa.
Scattergood, Miss M., McLean, Va.
Schiferl, M., 1404 Tuckerman St., N.W., Washington 11, D.C.
Schiff, F. W., Dept. of Economics, Columbia College, Columbia University, New York 27, N.Y.
Schleis, M. J., Jr., R.D. 6, North Canton, Ohio
Schmidt, F. L., Alumni Hall, University of Dayton, Dayton 9, Ohio
Schneider, S., 163 East 178th St., New York 53, N.Y.
Schulman, Mrs. R., 534 Cooper St., Camden, N.J.
Schultz, Mrs. R. S., III, Econometric Institute, 500 5th Ave., New York 18, N.Y.
Schumer, W., 310 Riverside Drive, New York 25, N.Y.
Schurr, S. H., Cowles Commission, University of Chicago, Chicago 37, Ill.
Schwartz, G., 113 Ramsey Ave., Syracuse, N.Y.
Schwartz, M. H., Research Dept., Federal Reserve Bank of New York, New York 7, N.Y.
Searles, E. W., 810 Wayne Ave., Dayton 10, Ohio
Seeboeck, E. J., Box 563, University of Dayton, Dayton 9, Ohio
Segal, H. H., 507 Furnald Hall, Columbia University, New York 27, N.Y.
Seliskar, J. A., John Carroll University, Cleveland, Ohio
Seton, T. R., P.O. Box 129, Wall St. Station, New York 5, N.Y.
Sevin, C. H., Marketing Division, Office of Domestic Commerce, U.S. Department of Commerce, Washington 25, D.C.
Shafei, M. Z., 50 University Place, Princeton, N.J.
Shapiro, J., 1206 East New York Ave., Brooklyn 12, N.Y.
Sharkey, W. K., Dept. of Economics, Purdue University, West Lafayette, Ind.
Shelton, D. W., 2715 Webb Ave., New York 63, N.Y.
Shepard, D. C., Jr., 466 Northampton St., Easton, Pa.
Shishkin, B. B., 901 Massachusetts Ave., N.W., Washington 1, D.C.
Shor, M., 4203 37th St., N.W., Washington, D.C.
Silberman, C. E., 176 West 87th St., New York 24, N.Y.
Simpson, Miss E. T., 2510 Clarendon Road, Brooklyn 26, N.Y.
Skinner, Miss J., Life Insurance Assoc. of America, 165 Broadway, New York 6, N.Y.
Slesinger, R. E., 5419 Northumberland St., Pittsburgh, Pa.
Smith, E. K., Dept. of Economics, University of Buffalo, Buffalo, N.Y.
Smith, J. H., Bureau of Labor Statistics, Washington 25, D.C.
Smith, W. L., 1237 Olivia Ave., Ann Arbor, Mich.
Smith, W. S., 21 Edwards Place, Princeton, N.J.
Solomon, Miss B. R., 297 Lincoln Place, Brooklyn 17, N.Y.
Speth, C. W., Pan-American-Grace Airways, Inc., Lima, Peru
Spiro, B. P., P.O. Box 4772, Duke Station, Durham, N.C.
Spruill, C. P., University of North Carolina, Chapel Hill, N.C.
Stark, J. R., Bureau of the Budget, Executive Office of the President, Washington, D.C.
Steinberg, G. T., 41 Hamilton St., East Orange, N.J.
Steinhardt, H., 261 S.W. Kingston Ave., Portland 1, Ore.
Stephan, A. H. F., Rutgers University, 77 Hamilton St., New Brunswick, N.J.
Stewart, J. S., 81 Columbia Heights, Brooklyn 2, N.Y.
Stockfisch, J. A., Box 254, Claremont, Calif.
Stone, I., 3040 Cruger Ave., Bronx 67, New York, N.Y.
Stone, Miss J. K., 57 West 8th St., New York 11, N.Y.
Stoner, P. M., Arlington Village, Arlington, Va.
Strain, R. E., 1616 Waunona Way, Route 4, Madison 5, Wis.

Street, J. H., 200 S. 43rd St., Philadelphia, Pa.
Suagee, F. F., 663 State, Madison, Wis.
Swartley, J. C., 195 Broadway, New York 7, N.Y.
Tanenbaum, W., 2805 24th Ave., Astoria, L.I. 2, N.Y.
Taub, E. S., 1367 Connecticut Ave., N.W., Washington, D.C.
Taylor, Miss M. M., 202 Blaisdell Hall, Claremont, Calif.
Taylor, P. N., University of Connecticut, Storrs, Conn.
Teitler, E., 342 East 6th St., New York 3, N.Y.
Thorne, Miss N. E., 1515 Park Road, N.W., Washington 10, D.C.
Tintner, G., Dept. of Economics, Iowa State College, Ames, Iowa
Tompkins, H. M., 1040 Cory St., Fostoria, Ohio
Towle, J. W., Lunt 111, Northwestern University, Evanston, Ill.
Townsend, R. Y., 43 Commonwealth Road, Watertown, Mass.
Ture, N. B., 5519 Kenwood, Chicago 37, Ill.
Turrell, Miss V., Smithtown Branch, N.Y.
Vaccara, J. F., 8317 21st Ave., Brooklyn 14, N.Y.
Vatter, Mrs. H. G., 2838 Derby St., Berkeley, Calif.
Vaughan, F. L., Dept. of Marketing, University of Oklahoma, Norman, Okla.
Verdoorn, P. J,. Central Planbureau, Raamweg 18, The Hague, Holland
Vernon, R., 1019 27th St., S., Arlington, Va.
Victoriano, P. B., 531 West 124th St., New York 27, N.Y.
Viner, E. A., R.D. 1, Box 188, Keyport, N.J.
Vuillemin, A. C., Sampson College, Sampson, N.Y.
Waid, Miss B. A., 176 Torrence Road, Columbus 2, Ohio
Walker, J. R., 43-01 Westmoreland Ave., Little Neck, L.I., N.Y.
Wallace, J. R., 82 Beaver St., New York 5, N.Y.
Wallace, R. F., School of Commerce, Northwestern University, Evanston, Ill.
Warner, A. J., Finance Div., OMGUS, APO 742, c/o Postmaster, New York, N.Y.
Wasserman, M. J., 1422 Longfellow St., N.W., Washington 11, D.C.
Watson, A. N., Research Dept., Curtis Publishing Co., Philadelphia 5, Pa.
Weidenbaum, M., 2034 78th St., Brooklyn 14, N.Y.
Weiner, W., 606 John Jay Hall, Columbia University, New York 27, N.Y.
Weinman, A., 24 Brevoort Place, Brooklyn 16, N.Y.
Weintraub, S., School of Commerce, St. John's University, Brooklyn 2, N.Y.
Weisenfeld, A., 1060 Broad St., Newark, N.J.
Weis, Mrs. G. S., 311 Fisher Ave., White Plains, N.Y.
Weitzman, M. S., 1540 East 34th St., Brooklyn 10, N.Y.
Weldon, J., Alumni Hall, University of Dayton, Dayton 9, Ohio
Wesson, W. H., Jr., Box 5373, Duke Station, Durham, N.C.
Wexler, H., 355 East Chester St., Long Beach, L.I., N.Y.
White, A. C., 1078 N. Broad St., Galesburg, Ill.
Widenmann, H. A., Carl M. Loeb, Rhoades & Co., 61 Broadway, New York 6, N.Y.
Wilcox, S., Florida State College for Women, Tallahassee, Fla.
Willfort, Miss M., 11 Ware St., Cambridge 38, Mass.
Williams, R. J., Jr., Shanks Village, Orangeburg, N.Y.
Willis, P. B., 60 Brattle St., Apt. 401, Cambridge 38, Mass.
Wilmeth, J. B., 219 8th St., S.W., Washington 4, D.C.
Winnick, L., 87 Tehama St., Brooklyn 18, N.Y.
Wirick, G. C., Jr., Dept. of Economics, University of Michigan, Ann Arbor, Mich.
Wittkowski, E., c/o Palestine Corp., Ltd., 120 Allenby Road, Tel Aviv, Palestine
Wolf, A. C., 1660 Lanier Place, N.W., Washington, D.C.
Wolf, F. B., 292 Madison Ave., New York 17, N.Y.
Wolozin, H., 519 West 114th St., Room 1514, New York 27, N.Y.
Wood, D. T., 620 West 115th St., New York 25, N.Y.
Wyler, J. V., 69-11 Yellowstone Blvd., Forest Hills, N.Y.
Zimmerman, W. E., 36 McCormack Road, Slingerlands, N.Y.
Zivan, M., 75-39 195th St., Flushing, N.Y.

Zmachinski, J., 65 West 192nd St., New York 63, N.Y.
Zook, P. D., Southern Methodist University, Box 171, Dallas 5, Tex.

The Allied Social Science Associations are being served by the following officers during the present year:

American Accounting Association—Hermann C. Miller, Ohio State University, president; Clete F. Chizek, University of Chicago, secretary-treasurer.

American Association of University Teachers of Insurance—C. A. Kulp, Wharton School of Finance and Commerce, University of Pennsylvania, president; Chester A. Kline, University of Pennsylvania, secretary-treasurer.

American Farm Economic Association—Asher Hobson, University of Wisconsin, president; L. J. Norton, University of Illinois, secretary-treasurer.

American Finance Association—Lewis A. Froman, University of Buffalo, president; Raymond J. Saulnier, National Bureau of Economic Research, Inc., secretary-treasurer.

American Marketing Association—Ross M. Cunningham, Massachusetts Institute of Technology, president; Harvey W. Huegy, University of Illinois, secretary.

American Sociological Society—Louis Wirth, University of Chicago, president; Ernest R. Mowrer, Northwestern University, secretary-treasurer.

American Statistical Association—Willard L. Thorp, Department of State, president; Lester S. Kellogg, 1603 K Street, N.W., Washington, D.C., secretary-treasurer.

Econometric Society—J. Tinbergen, Rotterdam School of Economics, The Hague, The Netherlands, president; Alfred Cowles, University of Chicago, secretary-treasurer.

Institute of Mathematical Statistics—Will Feller, Cornell University, president; Paul S. Dwyer, University of Michigan, secretary-treasurer.

A new quarterly journal, *Human Relations*, has been organized to serve as a channel in which work in the various social sciences may converge for comparative study at an international level. It is announced jointly by the Tavistock Institute of Human Relations, London, England, and the Research Center for Group Dynamics, Massachusetts Institute of Technology. It will be edited by two committees drawn from the staffs of those organizations.

Beginning with January, 1947, a *Monthly Bulletin of Statistics* is being issued by the Statistical Office of the United Nations at headquarters in New York. This new publication continues and expands the publication of the same name issued by the League of Nations from Geneva.

A new quarterly journal in English, *The Social Sciences in Mexico and News about the Social Sciences in South and Central America*, has recently been established in Mexico City. The purpose is to make known to the social scientists of other countries the work that is being done in this field in Latin America. The editor is Dr. Laszlo Radvanyi, professor in the National School of Economics of the National University of Mexico.

Adelbert J. Canfield died on February 20, 1947.

Theodore Marburg died at Vancouver, Canada, March 3, 1946.

## *Appointments and Resignations*

Walter Abraham was appointed instructor in economics at Yale University, effective in the fall term, 1946–47.

Moses Abramovitz has been part-time visiting lecturer in economics at Columbia University for the spring session.

Paul H. Anderson is an economic analyst with the Marketing Division, Office of Domestic Commerce, Department of Commerce.

R. B. Ayres was visiting lecturer in the department of economics of the University of Illinois for the second semester, 1946–47.

Marvin A. Bacon, formerly with the Office of Price Administration, is economic analyst with the Finance and Tax Division of the Office of Small Business, Department of Commerce.

Elizabeth F. Baker, executive officer of the department of economics at Barnard College, is on

sabbatical leave carrying on research under the auspices of the Columbia Council for Research in the Social Sciences.

Nathan Belfer is in economics at Tufts College.

Emile Benoit-Smullyan has left the Department of Labor to become professor of economics and head of the department of economics at Associated Colleges of Upper New York, Utica.

George C. S. Benson has been selected as president of Claremont Men's College, a new member of the Associated Colleges of Claremont, devoted to training in business and public administration.

Philip W. Bishop was appointed instructor in economics at Yale University, effective in the spring term, 1946.

Robert Blum has been appointed lecturer in economics at Williams College.

Karl F. Bode has been promoted from associate professor to professor of economics at Stanford University.

Karl R. Bopp, director of research of the Federal Reserve Bank of Philadelphia, has been serving as visiting lecturer at Princeton University during the second term giving a graduate course in the history and theory of banking.

Howard Bridgman is assistant professor of economics at Tufts College.

Emily C. Brown, of Vassar College, will be on leave during the year 1947–48, making a study of National Labor Relations Board policies.

Norman S. Buchanan, of the University of California, Berkeley, is on leave of absence until February, 1948, to act as associate director, Division of Social Sciences, in the Rockefeller Foundation.

John W. Cadman, Jr., formerly of Princeton University, is now at the London School of Economics, where he will be engaged in research on problems connected with development of the London Limited Liability Company.

R. F. Casey has been appointed part-time assistant in the department of economics, University of Illinois.

John M. Clark gave the W. W. Cook lectures at the University of Michigan in March under the title of "Alternatives to Serfdom."

Justin J. Condon has resigned his position as associate, College of Economics and Business, University of Washington, to engage in graduate study at Harvard University.

Pearce Davis, formerly chairman of the National Telephone Commission and chairman of the New England Wage Stabilization Board, is the chairman of the reactivated department of business and economics of the Illinois Institute of Technology.

Malcolm M. Davisson, chairman of the department of economics at the University of California, Berkeley, will teach in the summer session of the University of British Columbia.

Anton J. De Haas has resigned as professor at Harvard Business School and has accepted a professorship at Claremont Men's College.

Frank G. Dickinson has resigned as associate professor of economics at the University of Illinois to continue as economist, statistician, and director of the Bureau of Medical Economic Research of the American Medical Association.

Edwin Ding, dean of the College of Agriculture of Fukien University, Foochow, China, will be lecturer in economics at the University of Southern California in 1947–48.

Leo M. Egand has been appointed an economic affairs officer in the Department of Economic Affairs of the United Nations secretariat at Lake Success.

Edmond L. Escolas has been appointed instructor in the department of commerce and economics at the University of Vermont beginning next fall.

Solomon Fabricant, of the staff of the National Bureau of Economic Research and lecturer in the School of Commerce, Accounts, and Finance, New York University, has been appointed associate professor of economics in that school and in the Graduate School of Arts and Sciences.

Hans R. Fadum was appointed instructor in economics at Yale University, effective in the fall term, 1945–46.

P. M. Faucett, Jr., has been appointed part-time assistant in the department of economics, University of Illinois.

Edith Floyd has been appointed instructor in the College of Economics and Business, University of Washington.

Joseph Folsom, of Vassar College, will be on leave during the first term of the year 1947–48.

C. Dorsey Forrest has resigned his position as assistant professor of marketing, College of Economics and Business, University of Washington, to accept a position as assosiate professor of advertising at the University of Southern California, effective September, 1947. He will teach at Ohio State University in the summer quarter, 1947.

George Gibbs, Jr., is teaching accounting at the Los Angeles Extension Division of the University of California.

Roger W. Gray has been appointed part-time instructor in economics at Brown University.

Albert Griffin, associate professor of business administration at Emory University, is also secretary of the School of Business Administration.

Paul Groke is assistant professor of economics in the School of Business and Public Administration, University of Arizona.

Everett E. Hagen has been in the Fiscal Division of the Bureau of the Budget since November, 1946.

Robert M. Haley has accepted the chairmanship of the department of economics, Linfield College, McMinnville, Oregon, beginning next fall.

Challis A. Hall, Jr., has been appointed assistant professor of economics at Yale University.

Charles L. Harlan has retired after twenty-five years of service in the Department of Agriculture. His last position was head, Division of Livestock and Poultry Estimate, Bureau of Agricultural Economics.

Albert G. Hart, who has been visiting professor of economics at Columbia University for the academic year 1947–48, will remain as professor of economics, the appointment to be effective July 1, 1947.

Donald J. Hart has accepted an appointment as associate professor of economics at Carroll College, Wisconsin, effective in September, 1947.

Henry H. Hayman's last assignment in Europe was that of assistant control officer, OISC Intermediate Section, Theatre Service Forces European Theatre.

William F. Hellmuth was appointed instructor in economics at Yale University, effective in the fall term, 1946–47.

Harry Henig, formerly of the University of Cincinnati and wartime principal economist with the National War Labor Board in Washington, is now professor of economics, Department of Business and Economics, Illinois Institute of Technology.

F. J. Hill has been appointed part-time assistant in the department of economics, University of Illinois.

Thomas E. Hogan, formerly of the University of Wisconsin and economic adviser to the National Wage Stabilization Board, has been lecturer in the department of business and economics, Illinois Institute of Technology during the past year.

Daniel L. Horowitz recently resigned as labor attaché at the American Embassy, Santiago, Chile and is now acting assistant chief of the Division of International Labor, Health and Social Affairs, Department of State.

E. Jay Howenstine, Jr., has accepted a position with UNRRA to write the history of the Bureau of Supply.

Simeon Hutner, of the economics staff of Smith College, has been appointed to an instructorship in economics at Princeton University.

P. W. Isbell has been appointed part-time assistant in the department of economics, University of Illinois.

B. M. Joffe has resigned as executive director, National Wage Stabilization Board, and is now affiliated with the Joint Distribution Committee, in New York, as overall assistant to the executive vice chairman.

Robert K. Joyce has been an instructor in economics at St. Louis University since September, 1946.

Jacob O. Kamm, chairman of the School of Commerce of Baldwin-Wallace College, has been advanced from associate professor to professor of economics.

Everett M. Kassalow, who has been a research associate with the Research and Education department of the C.I.O., has been appointed director of research for the United Rubber Workers Union in Akron, Ohio.

Donald F. Keefe was appointed instructor in economics at Yale University, effective in the fall term, 1946–47.

T. J. Kinsella, formerly director of the Office of War Goods and Foreign Trade in the Office of Price Administration, is now with the Allied Chemical and Dye Corporation in New York.

Dudley Kirk, assistant professor of sociology at Princeton University, has resigned to accept the position of demographer in the Office of Intelligence Research, Department of State.

Paul L. Kleinsorge is serving as acting associate professor of economics at Stanford University.

Fred Kucera has been appointed part-time assistant in the department of economics of the College of Business Administration at the University of Nebraska.

R. H. Kyler accepted a position as professor of economics and business administration at Bethany College, Bethany, West Virginia, in September, 1946.

James S. Lanham has been appointed head professor of accounting at the University of Florida.

Albert Lauterbach, chairman of the social science division at Sarah Lawrence College, has been appointed visiting associate professor of economics at New York University for the spring term, 1947.

Hymen Leibenstein is a member of the staff of the department of business and economics of Illinois Institute of Technology, Chicago.

Norman H. Leonard, Jr., was appointed instructor in economics at Yale University, effective in the fall term, 1946–47.

William R. Leonard, formerly with the Division of Statistical Standards, Bureau of the Budget, has become deputy director of the Statistical Office of the United Nations.

Clarence D. Long has been promoted to professor of political economy in the Johns Hopkins University. He is also a member of the research staff of the National Bureau of Economic Research.

John D. Long has been appointed instructor in economics at DePauw University.

Warren H. Lutz has been statistician at the Baldwin Locomotive Works, Philadelphia, since July 1, 1946.

Fritz Machlup, of the department of economics at the University of Buffalo, will be visiting professor of economics at Stanford University for the summer quarter.

Donald B. Marsh has resigned from the department of economics of Barnard College, to accept a professorship at McGill University in connection with the position of economist of the Royal Bank of Canada.

R. G. Mason has been appointed associate professor of economics at the University of Florida.

Gerald Matchett, formerly of Indiana University and of the Army University at Biarritz, is now associate professor of economics, department of business and economics, Illinois Institute of Technology. Dr. Matchett was a member of the staff of the Colm-Goldsmith Commission which studied the monetary system of Germany.

Paul C. Mathis, of the department of economics at Carleton College, will join the summer session faculty in the School of Business, University of South Dakota, as visiting professor of economics.

Donald J. May has been appointed instructor in economics in the School of Business Administration, Emory University.

H. H. Maynard, of Ohio State University, will teach during the last month of the summer session at the University of Denver.

Sidney D. Merlin has accepted an appointment as lecturer in economics, University of California, Berkeley, beginning July 1, 1947. At present he is economist, Division of Financial Policy, Office of Financial Development Policy, Department of State.

Mabel Newcomer, of Vassar College, has been on leave during the past academic year serving as director of research, Finance Division, OMGUS, in Berlin.

H. C. Nolen, of Ohio State University, will be a member of the summer school staff in marketing at the University of Wisconsin.

Ruby T. Norris was married to Mr. Jack Morris on March 23. Mrs. Morris is now associate professor of economics at Vassar College after having been chief economist of the Office of Price Administration in Honolulu for four years.

Frank W. Notestein, director of the Office of Population Research of Princeton University, is consultant to the Assistant Secretary General for Social Affairs of the United Nations, in charge of the Population Division.

Ragnar Nurkse, visiting professor of international economics at Columbia University for the academic year 1946–47, will remain as professor of economics, the appointment to begin on July 1, 1947.

Bertil Ohlin, of the University of Stockholm, member of the Swedish parliament and former Minister of Commerce, delivered the Julius Beer lectures at Columbia University in February.

Abraham Orlofsky, was assistant in the department of economics, School of Commerce, Accounts, and Finance, New York University, in the spring semester.

R. F. Patterson, dean of the School of Business at the University of South Dakota, was recently elected president of the Vermillion Chamber of Commerce.

Bernard D. Perkins has been promoted to assistant professor of accounting and economics at the University of South Dakota.

J. E. Pheiffer has been appointed part-time assistant in the department of economics, University of Illinois.

Orme W. Phelps has accepted an appointment as professor of industrial relations at Claremont Men's College.

E. Bryant Phillips has been advanced from lecturer to assistant professor of economics at the University of Southern California.

Jaques J. Polak, formerly financial advisor of UNRRA, is now chief of the Statistics Division of the International Monetary Fund.

Karl Polanyi was visiting professor of history at Columbia University for the spring session, teaching general economic history.

Kenyon E. Poole is now in charge of the courses in money and banking at Brown University.

V. T. Rice has been appointed part-time assistant in the department of economics, University of Illinois.

Theordore W. Roesler has been appointed part-time assistant in the department of economics of the College of Business Administration at the University of Nebraska.

Julius Roller is on leave from his regular teaching duties in accounting at the College of Economics and Business, University of Washington, to engage in research study.

Kenneth D. Roose has been appointed instructor in economics at Yale University, effective July 1, 1947.

Arnold W. Sametz has been appointed instructor in economics at Princeton University.

G. Lincoln Sandelin, formerly with the United States Treasury, is chief of the insurance section, Finance Division, OMGUS.

Raymond J. Saulnier will be on leave of absence from Barnard College during the academic year 1947–48 to carry on his studies with the National Bureau of Economic Research.

H. P. Scheinkopf has been appointed part-time assistant in the department of economics, University of Illinois.

Emerson P. Schmidt has resigned his position at the University of Minnesota to continue as director of economic research of the Chamber of Commerce of the United States of America in Washington, D.C.

Robert Seymour has been appointed full-time research fellow in the Bureau of Business Research, College of Economics and Business, University of Washington.

Floyd R. Simpson will teach at the University of Minnesota this summer.

Newlin R. Smith is assistant professor of economics at Tufts College.

Victor E. Smith has been appointed assistant professor of economics at Brown University.

Tipton R. Snavely will serve by appointment of the Governor as a member of the commission created by the General Assembly of Virginia to study the financial needs of the public school system, with special reference to a sales tax.

H. K. Snell has accepted an appointment as professor of transporation in the College of Business Administration, University of Texas, effective June, 1947.

Tillman M. Sogge, formerly chief economist, Division of Statistical Standards, Bureau of the Budget, has resigned to accept the chairmanship of the department of economics, business, and sociology at St. Olaf College. He will continue to serve as a consultant to the Bureau of the Budget.

D. L. Spriggs has been appointed part-time assistant in the department of economics, University of Illinois.

John W. Stewart has been appointed instructor in business law in the department of business organization and management of the College of Business Administration at the University of Nebraska.

George J. Stigler, of Brown University, has been appointed professor of economics at Columbia University.

Janet R. Sundelson has been appointed instructor in economics at Barnard College.

Boris Swerling has been appointed instructor in economics at Brown University.

Philip Taft has been promoted from associate professor to professor of economics at Brown University.

Martin Taitel, formerly special assistant with the Office of Contact Settlement, is now assistant professor of economics, department of business and economics, Illinois Institute of Technology.

Frank M. Tamagna was in Japan, Korea and China from January to October, 1946, as advisor to SCAP in Japan and to the executive Yuan in China. He resumed his position with the Federal Reserve Bank of New York in November, 1946 and, at the beginning of February, 1947, transferred to the Board of Governors of the Federal Reserve System, where he is currently in charge of problems related to international monetary and exchange policies.

Ralph I. Thayer has been named assistant director of the Institute of Labor Economics, University of Washington.

Hulda Vaaler has been promoted to the rank of assistant professor of secretarial training in the School of Business Administration, University of South Dakota.

Alice J. Vandermeulen has accepted an appointment as assistant professor of economics at Scripps College and Claremont Men's College.

Daniel C. Vandermeulen has been promoted to associate professor of Claremont Men's College.

Lauren M. Walker has been appointed assistant professor of accounting in the College of Economics and Business, University of Washington.

Samuel G. Wennberg has been promoted from associate professor to professor of marketing in the department of economics and business, University of Missouri.

Ray Werner has been appointed part-time assistant in the department of economics of the College of Business Administration of the University of Nebraska.

Rodney B. Wolfard has been appointed instructor in economics at Duke University.

Donald H. Wollett has resigned as assistant professor of business law in the College of Economics and Business, University of Washington, to become assistant to the dean and assistant professor in the School of Law in the same institution.

S. H. Young has been appointed part-time assistant in the department of economics, University of Illinois.

# VACANCIES AND APPLICATIONS

The Association is glad to render service to applicants who wish to make known their availability for positions in the field of economics and to administrative officers of colleges and universities and to others who are seeking to fill vacancies.

The officers of the Association take no responsibility for making a selection among the applicants or following up the results. The Secretary's Office will merely afford a central point for clearing inquiries; and the *Review* will publish in this section brief descriptions of vacancies announced and of applications made. It is optional with those submitting such announcements to publish name and address or to use a key number.

Communications should be addressed to: The Secretary, American Economic Association, Northwestern University, Evanston, Illinois.

## *Vacancies*

*Economics, money and banking, corporate finance, insurance, transportation, international economics:* An Ohio college of liberal arts, coeducational, has opening in these fields. Appointment at rank of instructor carries a maximum salary of \$2,800 for nine months, assistant professor, \$3,600, and associate professor, \$4,000. For the latter two positions, the Ph.D. is expected. P123

*Staff economist:* For Chicago office of large management consulting firm. Requires substantial experience in manufacturing or retailing organization with business problems as they affect management policies and operations. Must be able to present reports and recommendations convincingly either orally or in written form. Thorough academic grounding desirable but operating experience a prerequisite. Age range 35 to 40 approximately, but not exclusively. Salary open as depends on experience and attainments. P124

*Principles of economics, labor economics:* Wanted by eastern college, man with Ph.D. degree or substantial graduate training, instructor or assistant professor depending on qualifications. P125

*Principles of economics, general accounting:* Instructor or assistant professor at eastern college. P126

## *Economists Available for Positions*

*Money and banking, corporation finance, public finance, international trade and finance, mortgage finance, labor, theory:* Man, single, Ph.D. Experience includes mortgage research for banks; economist in three federal agencies; 10 years of teaching at major universities and colleges; now in leading southern university; publications; further research in progress. Associate professor now and in previous position. Seeks full professorship in best liberal arts college or university. Minimum, \$4,800 for eight or nine months. Available in July or September, 1947. E154

*Public finance, labor economics, money and banking, economic principles and theory:* Man, 37, married, Ph.D. Seven years of college teaching experience; now head of department in small state-supported college but desires professional advancement. Prefers West. E191

*Elementary economics, elementary sociology, money and banking, public finance, statistics, elementary accounting:* Man, 46, married, Yale A.B., Harvard Ph.D. Broad teaching experience. Now professor in well-known eastern college. Desires advancement. E209

*International trade and finance, government and business, theory, public finance:* Man, 41, Ph.D., 1936. Six years of teaching experience in state university; 3 years in research. Volume on special problem of government and business near completion. Available in September, 1947. E211

*Economic theory, economic geography, business cycles, agricultural economics, consumption, statistics, sociology:* Man, 42, married, Ph.D. Over 8 years of college teaching and research experience; 4 years with OPA. Wishes permanent position in teaching and research. E217